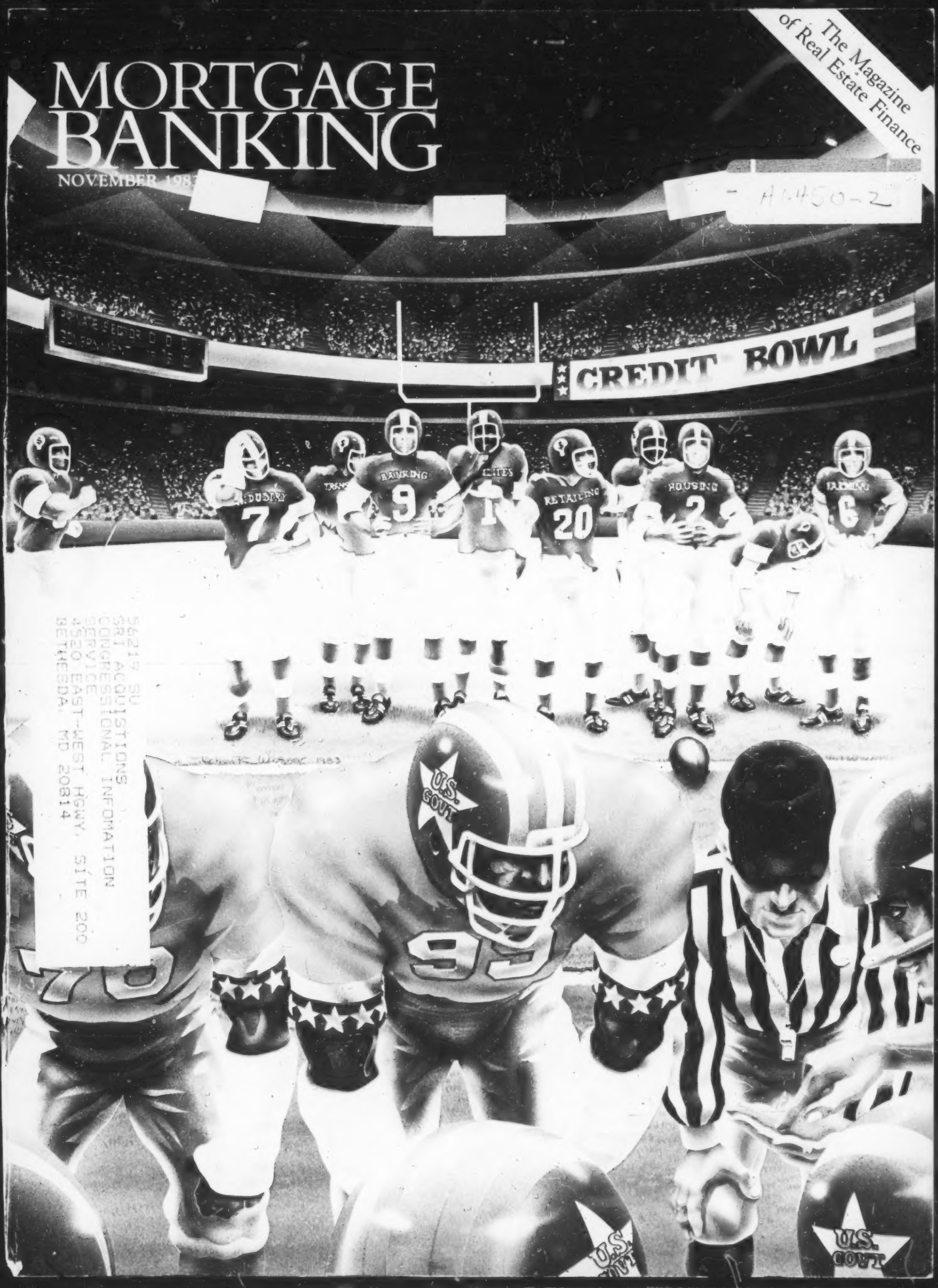
MORTGAGE BANKING

NOVEMBER 1983

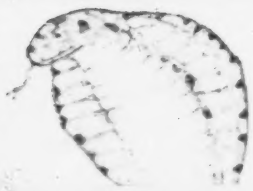
The Magazine of Real Estate Finance

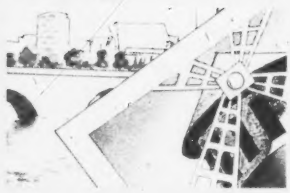
H.450-2



56218 SU
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION SERVICE
4520 EAST-WEST HIGHWAY, SITE 200
BETHESDA, MD 20814

Volume 44 No. 2
November 1983





32 Measuring Profitability

45 Controlling Risks

62 GNMA In Europe

Interview with Felix M. Beck, CMB 10

Second Mortgages: Coming of Age 20
Michael Rosser

Measuring Mortgage Bankers' Profitability 32
Ronald Rowland

Controlling Mortgage Pipeline Risk 45
John W. Labuszewski and James F. Meisner

Pension Funds: Targeting the Market 55
Thomas P. Napier, Jr.

GNMA Goes to Europe 62
Robert W. Karpe

About This Issue 5
People 69
Books 85
Mortgage Market Trends 93
Classified Advertisements 88
Advertisers Index 90

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Editor, Stephanie A. Smart

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Stephen Wagner

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241)
Published monthly and Copyright © 1983 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association.
Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

October 13, 1983

The current economic recovery is nearing its first anniversary, and it appears likely to continue in spite of the record high level of real interest rates. When this recovery began at an abnormally slow pace last winter, many analysts feared that it would give way to a disastrous third recession in three years. The recovery did strengthen, however, and in the second and third quarters this year real GNP grew at estimated annual rates of 9.6 and 7.0 percent, respectively. A 4 to 6 percent pace seems to be in store for the next several quarters.

This economic recovery resulted when business finally drew down inventories to replenishment levels at the end of 1982, inflation was pulled down to a 3.6 percent annual rate in early 1983, and the Federal Reserve responded with a more relaxed monetary policy during the last half of the year. After a lag, the reduced tax rates of the Reagan three-year tax cut have begun to strengthen consumer confidence and spending. Industrial production gained for nine consecutive months through August, before a modest correction in September. At the same time, the huge Federal budget deficit has augmented spending in certain areas of the economy, including the medical and defense sectors. These increasing components of aggregate demand have outweighed weakness in net exports and investment to yield the welcome growth in GNP. An important aspect of this recovery is its imbalance, with investment and net exports remaining weak while consumer spending surges. Investment remains weak due to excess unused capacity in many industries and high real interest rates that render many projects infeasible. Exports are weak and imports are strong due to the high value of the dollar on the foreign exchange markets, also directly attributable to high U.S. interest rates. This effect will continue to injure U.S. producers for foreign markets and domestic producers who compete against imports; both groups will lose market share, some of which never will be regained.

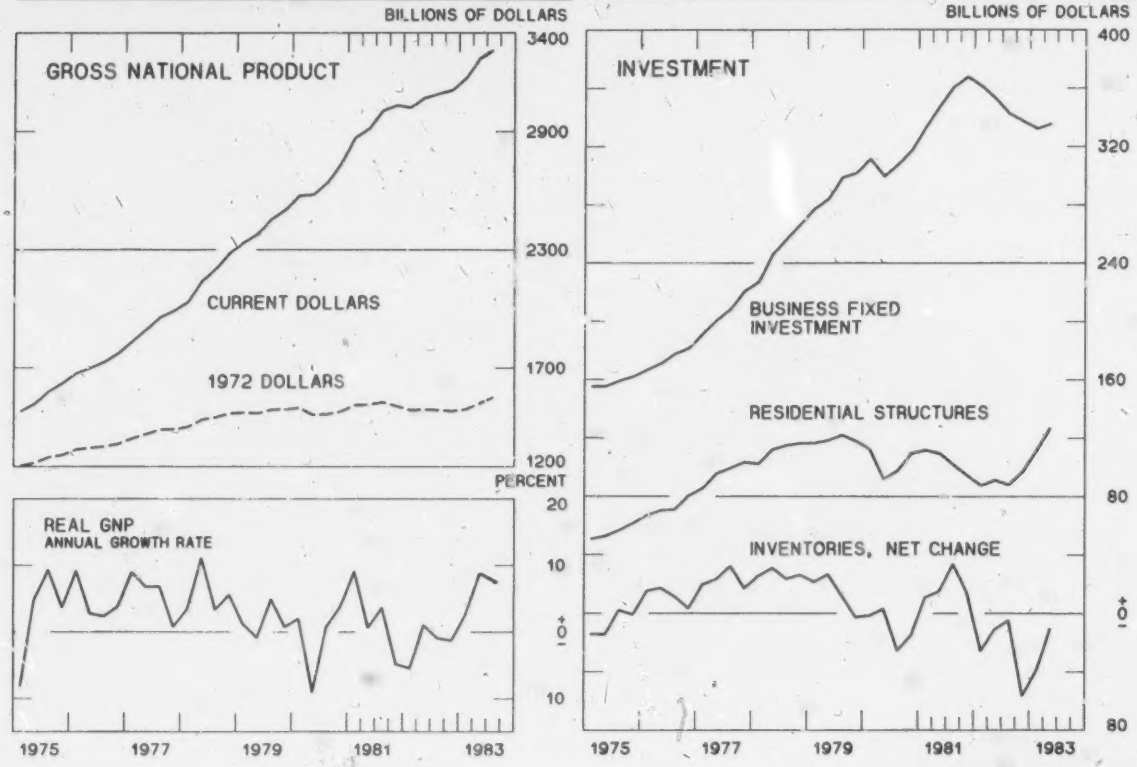
Because monetary policy has been the key to the recovery so far, the economic outlook must be based on an assumption about future monetary policy. Last spring the Federal Reserve became concerned that economic growth was proceeding too rapidly, risking renewed inflation. At the May meeting of the Open Market Committee, a slightly more restrictive monetary policy was adopted to slow economic growth. The result was a firming of interest rates during the summer. The just-released minutes of the August Open Market Committee meeting revealed a slight easing of credit policy. With inflation in September below a 3 percent annual rate, and with the money supply safely within the target range, it now seems that this relaxation of monetary policy will continue, at least until year-end.

Although the economic recovery is proceeding, the huge Federal budget deficits continue to prevent a broad-based revival of all segments of the economy. The Federal government now spends one-third of national income, twice its share of 1950. Many spending programs are indexed to rise with inflation, while income tax revenues are scheduled to be indexed in 1985 so they no longer will rise in step with inflation. As Council of Economic Advisors Chairman Martin Feldstein told the MBA Board of Governors last month, Federal deficits are projected to stay in the $180-200 billion range for the next several years. This expansionary fiscal policy will exert upward pressure on interest rates and the price level, forcing the Federal Reserve to keep monetary policy more restrictive than would otherwise be necessary. Until the deficits are brought down to more reasonable levels, there is little hope for return to balanced and broad-based economic health for the economy. There is little prospect for near-term improvement in the deficit. Although the Congressional budget resolution calls for $73 billion in new tax revenue over the next three years, little action this session is expected. The House Ways and Means Committee is working on a bill that would raise only $5.7 billion, while the Senate Finance Committee cannot agree on a bill at all. With elections approaching in 1984, no one expects significant fiscal action next year.

The overall economic recovery will continue into 1984. The unemployment rate will continue to drift downward slowly, from its current 9.3 percent to 9 percent at year-end. In spite of huge Federal deficits, the expected easing of monetary policy in a low inflation environment will allow interest rates to fall. Short-term Treasury yields should approach 8 percent by year end, and mortgage yields could reach 12 percent. Whether these trends continue will depend on whether the deficits and the inflation rate force the Federal Reserve to restrict credit growth early in 1984.

Dr. Warren Matthews
Senior Economist

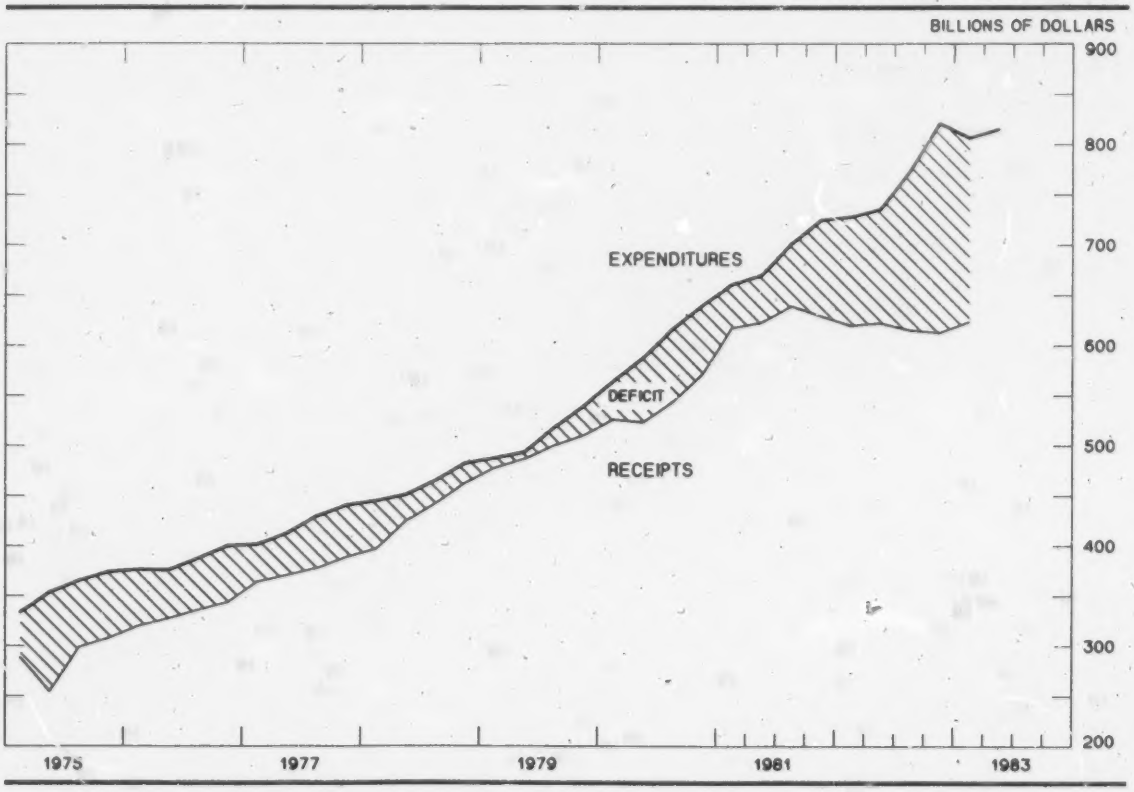
SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



FEDERAL BUDGET

NIA BASIS

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



Source: Federal Reserve Board

MORTGAGE MARKET TRENDS—NOVEMBER 1933

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
MAY	81	53	28	944	590	354	99	67	32	1,028	707	321
JUN	89	59	30	929	607	322	91	71	20	910	703	207
JUL	91	53	37	1,062	585	477	107	70	37	1,185	721	464
AUG	80	54	26	888	580	308	96	70	26	1,046	738	308
SEP	100	61	39	1,003	657	346	105	71	34	1,134	773	361
OCT	100	63	37	1,172	737	435	111	73	38	1,142	782	360
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,707	1,239	468
FEB	93	56	36	1,479	949	530	96	66	30	1,784	1,220	564
MAR	135	91	44	1,467	985	482	135	95	40	1,605	1,108	497
APR	138	93	45	1,536	982	554	136	103	33	1,506	1,118	388
MAY	149	104	45	1,635	1,076	559	175	124	51	1,807	1,279	528
JUN	171	114	57	1,761	1,160	601	173	125	48	1,736	1,250	486
JUL	147	92	55	1,782	1,057	725	160	112	48	1,785	1,162	623
AUG	155p	101p	54p	1,666p	1,046p	620p	180p	123p	57p	1,935p	1,273p	662p
8 months												
1983	1,073	707	365				1,147	812	335			
1982	599	385	214				655	468	186			
1981	710	493	217				786	592	194			
1980	717	511	206				792	594	198			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
MAY	114,597	33,864	16,261	64,472
JUN	116,619	34,398	14,950	67,271
JUL	116,632	35,270	16,085	65,277
AUG	117,960	35,852	16,774	65,334
SEP	118,274	36,309	16,728	65,237
OCT	118,591	36,895	16,720	64,976
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	151,919	67,489	25,082	59,348
AUG	157,219p	68,611p	26,177p	62,431p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
MAY	169	37	259	8.2
JUN	192	34	253	8.3
JUL	183	31	251	8.5
AUG	186	34	247	7.5
SEP	168	40	248	6.9
OCT	173	41	245	6.1
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.1
MAY	259	64	271	4.9
JUN	283	59	285	5.3
JUL	260	53	291	5.8
AUG	281p	53p	297p	6.2p
8 months				
1983	1,874	435		
1982	1,296	259		
1981	1,724	319		
1980	1,909	372		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
APR	9	10	46	17	97	105	506	171	9	14	47	15	104	157	484	166
MAY	10	13	41	17	110	145	488	201	12	16	54	18	117	144	578	189
JUN	10	12	46	20	105	118	499	207	10	18	44	19	98	157	462	193
JUL	9	12	45	24	101	140	555	266	11	15	62	18	104	159	725	197
AUG	13	10	42	17	113	106	485	184	12	16	49	16	119	164	567	196
SEP	12	15	51	21	114	131	530	228	16	15	54	20	138	141	629	226
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	164	231	992	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	270	263	900	351
MAR	11	14	82	28	136	173	835	323	13	13	80	29	210	196	855	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	175	192	804	335
MAY	15	20	77	38	148	194	885	408	17	25	93	40	164	229	1,008	406
JUN	19	21	86	45	183	201	930	447	18	25	89	42	171	214	932	419
JUL	16	17	78	36	181	186	1,004	411	17	23	82	38	157	230	993	405
AUG	18p	21p	77p	39p	181p	203p	867	415p	22p	26p	93p	39p	192p	249p	1,035p	459p
8 months																
1983	107	121	583	263					113	144	633	260				
1982	64	58	332	132					67	91	373	122				
1981	77	94	352	187					76	116	416	175				
1980	71	105	342	200					76	118	406	193				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
APR	653	419	234	75	53	22
MAY	666	425	241	86	61	25
JUN	671	438	232	85	76	28
JUL	690	442	248	85	64	21
AUG	690	442	248	91	66	25
SEP	713	450	263	84	63	21
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	990	617	373	118	89	29
AUG	1,016p	633p	383p	153p	105p	48p
8 months						
1983				840	613	227
1982				629	458	190
1981				836	620	216
1980				1,021	723	337

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[3] ALL TYPES	FNMA		GNMA Current Securities Yield[3]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields			Aaa Utility New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[1]	Conventional		Conventional				ARM (5 yr Treas)	Conv			10-yr	26-wk			
		New	Existing	New	Existing											
1982																
MAY	16.19	16.50	16.55	15.89	16.11	16.88	17.80		16.000	15.26	15.22	13.62	12.220	13.42	97	164
JUN	16.73	16.75	16.80	15.40	15.56	17.62			16.375	15.89	15.92	14.30	12.310	13.96	81	159
JUL	16.29	16.50	16.55	15.70	15.52	17.13			16.125	15.54	15.61	13.95	12.236	12.94	68	159
AUG	14.61	15.40	15.45	15.71	15.63	15.62	17.19		15.500	14.31	13.95	13.06	10.105	10.15	66	125
SEP	14.03	15.05	15.05	14.99	15.30	15.37			14.750	13.51	13.50	12.34	9.539	10.36	53	117
OCT	12.99	13.95	13.95	14.41	14.95	14.13		13.097	14.000	12.86	12.20	10.91	8.299	9.20	79	195
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	136
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.32	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.35	12.72	14.38		13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidental				
	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.
1982																				
MAR	10,600	3,180	3,160	3,465	795	6,957	2,420	2,626	1,872	39	477	90	207	129	51	3,096	600	327	1,464	705
APR	9,755	2,900	3,100	3,071	684	6,721	2,420	2,582	1,674	45	469	50	177	172	70	2,535	400	341	1,225	569
MAY	9,689	3,080	3,193	2,899	517	6,626	2,450	2,541	1,597	38	479	190	163	111	15	2,614	470	489	1,191	464
JUN	11,792	3,440	4,041	3,826	485	8,153	2,850	3,228	1,995	50	687	180	271	223	13	2,932	390	512	1,608	422
JUL	10,874	2,940	3,427	3,661	846	7,361	2,330	2,922	2,049	60	501	70	206	177	48	2,862	390	299	1,435	738
AUG	10,108	2,710	3,601	3,251	546	7,412	2,500	2,909	1,958	45	543	40	280	210	13	2,423	440	412	1,083	488
SEP	10,807	2,620	3,858	3,855	474	7,911	2,460	3,130	2,276	45	563	20	295	226	22	2,393	200	433	1,353	407
OCT	10,954	3,080	3,529	3,764	581	7,637	2,480	2,817	2,296	44	781	340	216	210	15	2,646	370	496	1,258	522
NOV	13,450	4,460	4,026	4,458	506	10,067	3,930	3,148	2,935	54	702	220	337	107	38	2,751	380	541	1,416	414
DEC	19,578	5,850	6,443	5,724	1,561	13,941	5,390	4,778	3,705	68	1,025	50	605	297	73	4,482	280	1,060	1,722	1,420
1983																				
JAN	16,530	6,400	4,755	4,595	780	12,137	5,840	3,621	2,628	48	1,066	250	529	246	41	3,426	410	605	1,721	691
FEB	18,116	6,960	5,090	5,197	869	13,850	6,820	3,946	3,041	43	958	90	383	407	78	3,748	490	761	1,749	748
MAR	23,138	8,590	7,577	5,955	1,016	17,149	7,160	5,877	4,054	58	1,061	70	677	233	81	4,498	930	1,023	1,668	877
APR	21,117	7,520	7,942	4,903	756	15,983	6,630	6,292	3,005	56	1,269	340	656	223	50	3,865	550	990	1,675	650
MAY	23,354	7,760	8,348	6,427	819	17,229	6,860	6,903	3,409	57	1,148	130	549	411	58	4,977	770	896	2,607	704
JUN	30,493	9,180	10,936	8,851	1,526	21,917	7,840	8,683	5,302	92	2,537	980p	916	491	150	6,039	360	1,337	3,058	1,284
JUL	n.a.	n.a.	10,275	6,973	995	n.a.	n.a.	8,297	4,667	64	n.a.	n.a.	759	311	71	n.a.	n.a.	1,219	1,995	860

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.
1982										
FEB	43,552	7,740	16,529	8,794	10,489	7,480	3,080	2,844	1,131	425
MAR	46,125	8,910	16,664	9,630	10,921	10,005	4,130	3,347	1,564	964
APR	48,376	9,090	17,186	11,381	10,719	10,329	4,650	3,390	1,579	710
MAY	49,695	9,390	17,362	12,345	10,598	9,690	4,180	3,350	1,627	533
JUN	49,270	9,240	17,327	12,543	10,160	8,765	3,220	3,597	1,648	300
JUL	49,726	9,610	16,951	13,436	9,729	9,171	3,410	3,537	1,679	545
AUG	50,855	10,410	17,748	13,192	9,505	9,646	3,750	3,847	1,615	434
SEP	51,994	11,350	18,241	13,108	9,295	11,139	5,290	3,888	1,466	495
OCT	54,730	13,610	19,328	12,512	9,280	13,394	7,040	4,024	1,620	710
NOV	60,452	16,540	20,785	13,457	9,670	16,226	8,060	5,017	1,819	1,330
DEC	65,375	19,940	21,548	14,267	9,620	17,913	7,780	6,082	1,991	1,304
1983										
JAN	66,607	20,160	22,945	13,802	9,700	15,343	6,660	5,555	1,928	1,200
FEB	74,301	24,060	25,677	14,847	9,717	17,367	6,950	7,271	2,076	1,070
MAR	80,178	26,500	28,846	14,982	9,850	23,050	8,410	10,291	3,051	1,298
APR	109,493	53,320	31,850	13,993	10,330	26,184	11,630	9,730	3,230	1,594
MAY	81,764	21,560	33,906	15,767	10,531	23,274	7,680	10,622	3,667	1,305
JUN	95,914p	34,140p	35,319	15,308	11,147	25,641	7,040	12,555	3,940	2,106
JUL	n.a.	n.a.	36,852	12,203	12,148	n.a.	n.a.	14,092	3,377	2,164

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
		FHA/		Total		FHA (203)		VA		Private	
	Total	VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
FEB	54	32	22	32	1,785	8	356	7	393	17	1,036
MAR	69	37	32	39	2,193	9	373	7	421	23	1,399
APR	63	34	29	35	1,976	8	322	6	374	21	1,280
MAY	67	31	36	43	2,222	8	335	6	328	29	1,559
JUN	83	40	43	50	2,743	9	408	8	443	33	1,892
JUL	84	38	46	52	2,687	9	375	9	482	34	1,830
AUG	82	36	46	54	2,997	8	352	10	573	36	2,072
SEP	91	47	44	60	3,248	11	462	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued					Applications	Issued
1981										
DEC	1,272	655			1,156	203	1,140	1,156	1,729	1,304
1982										
JAN	813	430	112	322	3,276	3,280	1,629	1,628	1,543	902
FEB	1,204	519	2,287	682	566	565	1,228	1,115	1,789	960
MAR	1,880	604	224	1,071	2,607	2,523	1,481	1,564	2,223	1,335
APR	2,482	755	428	662	2,726	2,824	2,144	2,176	1,219	835
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,892	1,798	1,924	16,429	1,521
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	1,618	1,651	4,621	4,671	1,523	1,451	5,468	4,363

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5[b] Units	Non-res.		Total	1-4 Units	5[b] Units	Non-res.
DEC	180	70	40	70	70	7,480	770	2,910	3,800
JAN	130	30	30	70	30	8,070	650	3,630	3,800
FEB	170	50	40	80	60	7,530	540	3,340	3,650
MAR	130	70	10	50	40	6,420	630	2,000	3,790
APR	360	70	80	210	60	7,820	560	2,330	4,930
MAY	130	50	10	70	40	8,150	660	3,230	4,620
JUN	180	60	40	80	70	7,660	590	2,250	4,820
JUL	160	50	30	80	40	8,900	580	2,250	6,070
AUG	150	60	20	70	50	4,420	690	1,570	2,160
SEP	170	70	30	70	30	6,180	980	2,730	2,470
OCT	170	90	30	50	30	5,540	480	2,340	2,720
NOV	180	110	20	50	20	9,370	590	2,170	2,610
DEC	230	100	40	90	50	5,680	880	1,940	2,860
JAN	150	80	30	40	60	7,160	800	3,720	2,640
FEB	220	90	40	90	50	9,470	980	4,450	4,040
MAR	230	110	20	100	40	14,050	1,570	9,320	3,160
APR	200	80	10	100	50	na	1,150	na	2,520
MAY	430	220	50	160	200	6,440	890	3,820	1,730
JUN	600p	220p	90p	290p	160p	18,470p	950p	15,420p	2,100
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1]From the National Association of Realtors' "Existing Home Sales" series.

[2]Reflects cumulative total through the latest month for each column.

[3]Secondary market gross yields.

Federal Home Loan Mortgage Corp. Existing construction only.

[5]Federal Reserve's weighted average interest rate for Commercial Banks.

[6]Weighted average gross yields for accepted bids.

[7]Survey of three New York security dealers. Securities for immediate delivery.

[8]Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED				NOT SEASONALLY ADJUSTED							
						1-4 Units				5[3] Units		
	Total[2]	1-4 Units	5[3] Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1981													
SEP	2,250	1,900	30	380	2,610	2,180	530	420	1,230	50	40	10	380
OCT	2,110	1,550	270	420	2,440	1,870	480	350	1,040	170	0	170	400
NOV	1,890	1,520	40	330	1,820	1,430	400	290	740	40	10	30	350
DEC	2,290	1,660	170	280	2,530	1,800	600	390	810	190	0	190	540
1982													
JAN	2,030	1,560	90	520	1,830	1,390	410	340	640	100	60	40	340
FEB	2,140	1,760	120	290	1,820	1,380	470	280	630	120	90	30	320
MAR	3,180	2,420	90	600	2,790	2,110	600	340	1,170	80	60	20	600
APR	2,900	2,420	50	400	2,570	2,100	570	350	1,180	50	30	20	420
MAY	3,080	2,450	190	470	2,740	2,240	670	410	1,160	110	70	40	390
JUN	3,440	2,850	180	390	3,420	2,920	850	550	1,520	180	170	10	320
JUL	2,940	2,330	70	390	3,020	2,630	780	510	1,340	70	70	0	320
AUG	2,710	2,500	40	440	3,250	2,860	920	580	1,360	40	20	20	350
SEP	2,620	2,460	20	200	3,050	2,820	890	680	1,250	30	20	10	200
OCT	3,080	2,480	340	370	3,560	3,000	1,060	740	1,200	210	120	90	350
NOV	4,460	3,930	220	380	4,290	3,670	1,540	950	1,180	220	200	20	400
DEC	5,850	5,390	50	280	6,470	5,860	2,210	1,540	2,110	60	0	60	540
1983													
JAN	6,400	5,840	250	410	5,760	5,210	2,450	1,450	1,310	280	40	240	270
FEB	6,960	6,820	90	490	5,930	5,380	2,260	1,430	1,690	70	0	70	480
MAR	8,590	7,160	70	930	8,030	6,670	2,730	1,990	1,950	70	50	20	1,290
APR	8,490	7,640	340	520	7,520	6,630	2,540	1,640	2,450	340	0	340	550
MAY	8,720	7,500	220	930	7,760	6,860	2,910	1,800	2,150	130	20	110	770
JUNp	9,220	7,640	980	440	9,170	7,830	2,820	1,840	3,170	na	na	120	360

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5[3] Units	Non-Res.	Total	1-4 Units	5[3] Units	Non-Res.	1-4 Units	5[3] Units	Non-Res.	1-4 Units	5[3] Units	Non-Res.
1981														
SEP	1,820	1,610	90	120	2,330	1,530	120	680	5,260	470	810	5,690	870	1,520
OCT	2,340	1,770	170	400	2,560	1,850	200	510	5,190	280	840	5,280	510	1,130
NOV	1,920	1,320	180	420	4,250	1,490	190	2,570	3,720	390	640	4,170	610	1,150
DEC	3,150	2,370	170	610	2,470	2,020	160	290	5,890	950	600	4,780	1,240	710
1982														
JAN	2,940	2,290	240	410	3,290	2,430	140	720	6,370	1,000	690	5,380	1,260	880
FEB	3,080	2,210	90	780	3,620	2,470	60	1,090	6,220	810	710	4,550	1,130	930
MAR	4,130	3,010	120	1,000	2,850	2,560	140	150	7,730	480	700	5,610	710	930
APR	4,650	2,250	350	2,050	5,760	3,090	390	2,280	7,350	550	1,190	6,520	650	1,170
MAY	4,180	2,560	340	1,280	4,270	2,630	380	1,260	7,970	640	780	6,730	1,180	890
JUN	3,220	2,640	180	400	3,450	2,670	120	660	7,930	550	760	7,240	880	900
JUL	3,410	2,550	80	780	4,890	3,700	120	1,070	7,950	590	1,070	7,830	840	1,240
AUG	3,750	3,140	240	370	4,800	4,260	180	360	9,010	740	660	7,800	990	720
SEP	5,290	4,900	90	300	6,050	5,380	140	530	9,920	940	490	9,830	1,400	670
OCT	7,040	6,240	170	630	3,740	3,120	190	430	13,030	130	450	9,590	620	590
NOV	8,060	6,270	370	1,420	6,910	4,830	640	1,440	15,380	600	560	12,360	1,140	750
DEC	7,730	6,590	120	1,070	6,870	5,260	120	1,490	18,890	680	670	11,880	940	810
1983														
JAN	6,660	5,680	120	860	7,640	6,310	110	1,220	18,910	520	730	13,260	1,060	910
FEB	6,950	6,180	240	530	8,850	6,970	52	1,360	21,340	1,830	890	12,240	1,880	1,080
MAR	8,410	7,100	1,010	300	11,420	9,180	1,220	1,020	23,490	2,550	460	13,980	3,080	830
APR	na	6,300	na	1,270	na	10,010	na	1,620	20,220	na	860	16,710	na	1,050
MAY	7,680	7,070	0	610	9,230	8,320	100	810	20,430	500	630	16,210	1,280	810
JUNp	7,040	6,930	0	110	10,840	10,370	120	350	23,120	na	510	17,210	na	520

Notes: [1]All dollar amounts are in millions.

[2]Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3]Series labeled non-residential are also inclusive of farm data.

[4]Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[1]			SERVICING VOLUME		
		1-4 Units				5[3] Units			Non-Res.	1-4 Units	5[3] Units	Non-Res.	1-4 Units	5[3] Units	Non-Res.
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.							
1981															
SEP	3,990	2,660	640	470	1,550	460	40	420	870	72	94	90	195,370	19,140	39,590
OCT	4,330	2,640	580	400	1,660	570	60	510	1,120	67	60	58	214,730	20,730	46,680
NOV	3,580	2,220	480	340	1,400	570	60	510	790	70	64	80	188,070	19,880	37,990
DEC	4,330	2,280	470	320	1,490	1,230	160	1,070	820	59	57	50	212,560	22,750	39,210
1982															
JAN	4,510	2,340	490	340	1,510	1,240	170	1,070	930	62	56	54	222,860	23,790	44,400
FEB	4,100	2,140	440	320	1,380	1,120	200	920	840	54	59	50	223,400	22,860	44,140
MAR	4,160	2,470	520	320	1,630	710	100	610	980	55	60	55	235,950	26,690	43,830
APR	4,670	2,380	510	350	1,520	910	110	800	1,380	67	45	46	233,690	24,910	46,580
MAY	4,560	2,470	530	370	1,570	1,210	110	1,100	880	64	64	54	239,060	26,040	45,020
JUN	3,360	2,400	630	410	1,360	530	130	400	430	70	81	76	244,630	25,090	44,340
JUL	5,150	2,690	640	490	1,560	1,220	140	1,080	1,240	74	46	54	235,360	22,700	43,030
AUG	5,000	2,910	710	450	1,750	1,240	140	1,100	850	65	50	48	258,320	25,020	44,360
SEP	6,140	3,000	740	490	1,770	2,380	140	2,240	760	76	42	50	258,260	25,560	44,620
OCT	6,160	3,170	750	640	1,780	2,020	140	1,880	970	59	29	42	269,470	26,150	46,350
NOV	6,650	3,620	1,000	740	1,880	2,120	290	1,830	910	65	42	51	280,360	26,490	47,050
DEC	6,320	4,400	1,370	960	2,070	1,130	160	970	790	52	52	55	292,440	26,300	49,670
1983															
JAN	8,260	4,830	1,680	1,150	2,000	2,590	330	2,260	840	56	34	58	298,680	30,890	47,110
FEB	9,070	5,260	1,700	1,160	2,400	2,620	340	2,280	1,190	46	42	52	274,470	42,570	48,710
MAR	11,390	6,290	2,040	1,480	2,770	4,070	360	3,710	1,030	47	47	56	280,270	39,210	50,680
APR	8,860	5,270	1,730	1,290	2,250	2,860	150	2,710	730	66	51	66	289,290	41,620	47,300
MAY	8,620	5,490	2,040	1,320	2,130	2,540	0	2,540	590	63	42	66	313,560	52,280	46,790
JUN[p]	9,090	5,660	1,940	1,270	2,450	2,810	250[p]	2,560	620	60	93[p]	46	307,000	49,400	42,150

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5[3] Units	Non-Res.	Land Loans	Total	1-4 Units	5[3] Units	Non-Res.	Total	1-4 Units	5[3] Units	Non-Res.	Land Loans
1981														
SEP	180	80	40	60	50	420	100	170	150	3,250	1,130	910	1,210	810
OCT	280	70	40	170	40	820	310	150	360	4,020	1,150	980	1,890	900
NOV	190	70	40	80	40	380	110	50	220	3,960	1,000	1,030	1,930	870
DEC	180	70	40	70	70	990	590	130	270	4,240	1,020	1,120	2,100	900
1982														
JAN	130	30	30	70	30	520	50	160	310	3,400	810	800	1,790	910
FEB	170	50	40	80	60	380	70	70	240	3,550	830	890	1,830	950
MAR	130	70	10	50	40	530	100	70	360	3,250	800	800	1,650	910
APR	360	70	80	210	60	550	90	180	280	3,810	820	960	2,030	1,010
MAY	130	50	30	50	40	690	80	200	410	3,740	780	960	2,000	970
JUN	180	60	40	80	70	810	80	380	350	4,290	840	1,090	2,360	1,020
JUL	160	50	30	80	40	510	60	320	130	4,210	840	960	2,410	970
AUG	150	60	20	70	50	620	100	250	270	3,480	900	920	1,660	1,000
SEP	170	70	30	70	30	370	90	160	120	3,840	960	950	1,930	1,000
OCT	170	90	30	50	30	200	90	90	20	4,620	1,150	1,180	2,290	920
NOV	180	110	20	50	20	440	120	270	50	3,880	1,110	890	1,880	950
DEC	230	100	40	90	50	500	130	110	260	4,050	1,180	900	1,970	1,030
1983														
JAN	150	80	30	40	60	300	140	30	130	3,510	990	830	1,690	920
FEB	220	90	40	90	50	320	120	80	120	4,410	1,240	860	2,310	1,000
MAR	230	110	20	100	40	500	190	200	110	3,940	1,260	610	2,070	890
APR	200	80	10	100	50	320	160	70	90	2,830	850	450	1,530	1,060
MAY	430	220	50	160	200	490	150	90	250	9,700	2,880	1,290	5,530	3,820
JUN[p]	600	220	90	290	160	510	160	80	270	10,030	2,720	1,470	5,840	3,780

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5[3] Units	Non-Res.	Total	1-4 Units	5[3] Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1981												
SEP	970	80	290	600	3,670	920	1,210	1,540	10,770	2,460	4,380	3,930
OCT	1,200	130	160	910	7,030	920	1,330	4,780	11,510	2,320	5,260	3,930
NOV	1,050	120	520	410	6,120	750	1,770	3,600	10,870	1,680	5,270	3,920
DEC	1,920	140	1,310	470	7,480	770	2,910	3,800	10,960	1,160	5,710	4,090
1982												
JAN	2,050	180	1,400	470	8,070	650	3,620	3,800	11,070	1,130	5,770	4,170
FEB	690	70	190	430	7,530	540	3,340	3,650	11,230	1,180	5,360	4,690
MAR	920	190	170	560	6,420	630	2,000	3,790	11,930	1,250	6,610	4,070
APR	2,730	110	1,090	1,530	7,820	560	2,330	4,930	12,610	1,000	5,540	6,070
MAY	1,280	140	670	470	8,150	660	3,230	4,260	11,570	1,130	5,070	5,370
JUN	950	130	300	520	7,660	590	2,250	4,820	13,810	1,230	5,680	6,900
JUL	950	70	330	550	8,900	580	2,250	6,070	11,350	1,820	5,000	4,530
AUG	760	110	350	300	4,420	690	1,570	2,160	12,900	1,630	5,110	6,160
SEP	670	100	430	140	6,180	980	2,730	2,470	12,250	1,950	5,760	4,540
OCT	1,860	110	1,600	150	5,540	480	2,340	2,720	20,460	1,380	7,370	11,710
NOV	720	160	320	230	5,370	590	2,170	2,610	14,650	1,640	6,010	7,000
DEC	950	180	360	410	5,680	880	1,940	2,860	16,630	2,540	7,490	6,600
1983												
JAN	1,750	140	1,410	200	7,160	800	3,720	2,640	22,080	3,900	9,950	8,230
FEB	1,140	180	420	540	9,470	980	4,450	4,040	18,760	3,630	7,220	7,910
MAR	4,650	440	3,820	390	14,050	1,570	9,320	3,160	19,860	5,280	7,340	7,240
APR	3,840	180	2,950	710	na	1,150	na	2,520	17,760	3,390	8,200	6,170
MAY	1,080	180	610	290	6,440	890	3,820	1,730	26,300	4,720	8,740	12,840
JUN[p]	1,530	200	630	700	na	950	na	2,100	26,200	4,630	8,180	13,390

12/6/83
A6450-2

MORTGAGE BANKING

DECEMBER 1983

56219 SU
SRI ACQUISTIONS
CONGRESSIONAL INFOMATION
SERVICE
4520 EAST-WEST HGWY, SITE 200
BETHESDA, MD 20814

Volume 44 No. 3
December 1983

10 S&Ls in Transition

17 '84 Interest Rates

40 Commercial Condos

S&Ls in Transition: New Real Estate Routes 10
Christopher B. Leinberger

'84 Interest Rates: Higher but Stable 17
Daniel T. Van Dyke and Michael S. Salkin

The Move toward Mortgage Securitization 25
Michael A. Smilow

The ABCs of GPMs 33
Thomas J. Bak and Chester C. Foster

Commercial Condos: Threshold of Success 40
Morton L. Certilman

Mortgage Securities: Predicting Prepayments 47
Scott M. Pinkus and Evan B. Firestone

Professional Property Managers: The Changing Profile 56
Robert A. Crane, CPM®

The Last Word (Savings and Loan Stock Conversions) 63
Robert B. O'Brien, Jr.

About This Issue 5
People 71
Books 82
Classified Advertisements 84
Advertisers Index 87
Mortgage Market Trends 89

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Editor, Stephanie A. Smart

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Curtis Hanson

Published monthly since 1939 by the Mortgage Bankers Association of America

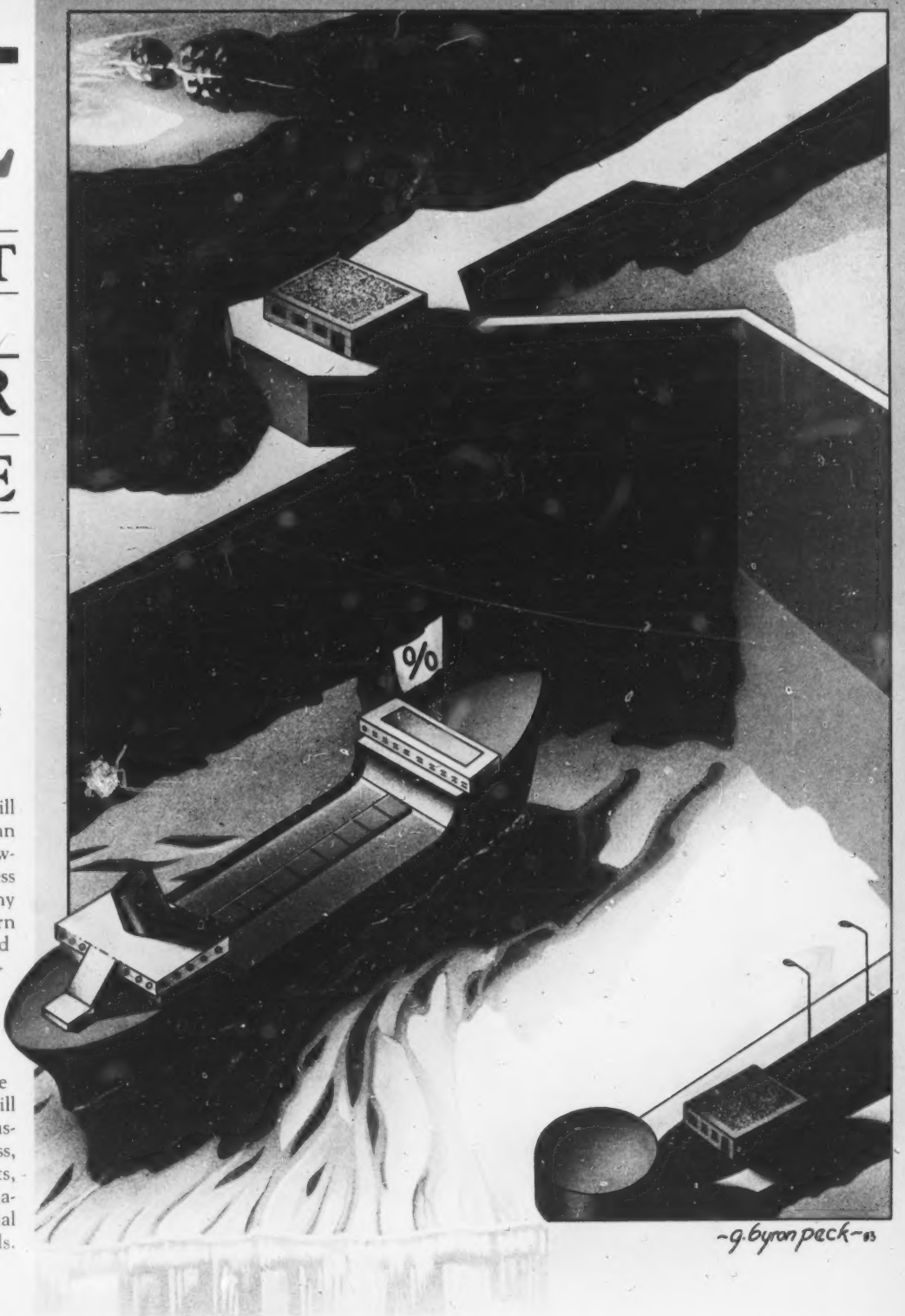
Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1983 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

'84 INTEREST RATES: HIGHER BUT STABLE

Daniel T. Van Dyke
Michael S. Salkin



Interest rates in 1984 will be at a higher level than they were in 1983. However, interest rates were less volatile in 1983 than at any time since 1977. This pattern of rate stability is expected to continue through 1984 because of the economic and political conditions influencing money markets.

High interest rates will have a major impact on the real estate industry and will be felt in a slowing of industry growth rates. Nevertheless, levels of activity of starts, sales, and mortgage originations will remain substantial and will be above 1983 levels.

Interest rates and monetary policy

Interest rates in 1984 will be at a higher level than they were in 1983 because the underlying economic and political conditions in 1984 are expected to be less favorable toward lower interest rates. Nevertheless, there are economic and political realities that limit how high interest rates can rise.

Three fundamental influences underlying money market conditions are substantially different now from those that existed a year ago. These influences are a healthy economic recovery accompanied by a rising demand for credit, the Federal Reserve's posture toward monetary restraint, and the continuing fear of inflation. All three factors point to higher interest rates for 1984.

For now, the recovery is substantial and broadly based. After weak eco-

continued

ILLUSTRATION BY BYRON PECK/EGLY ASSOCIATES

nomic growth in the first quarter of 1983, second quarter economic growth was very solid. Real GNP advanced at a 9.7 percent annual rate. The third quarter continued the brisk growth with real GNP advancing 7.9 percent. We expect real GNP in the fourth quarter to be 6.6 percent above year-ago levels. With income and employment growing and consumer confidence strong, consumers will continue to spend through 1984. Consumer spending on durable goods began in the second quarter of 1983 and will continue for three to five quarters.

As a result, consumer demand for credit is growing and will continue at least through 1984. In addition, commercial and industrial demand for credit is expected to increase in 1984. Therefore, total private credit demand will be higher next year. Despite the modest decline in the Federal Government's deficit, total credit needs will be greater in 1984 than in 1983, keeping upward pressure on interest rates.

The second fundamental change in money market conditions is the Federal Reserve's policy to slow the growth in the money supply. This policy shift occurred because of the fears of renewed inflation. At the end of 1982 and in early 1983, the Fed supplied enough bank reserves to permit the money stock to grow at about a 14 percent annual rate. After abandoning their stated money supply targets, the Fed re-established a "monitoring range" for M1 growth with an upper limit of 9 percent, considerably below the rates at which money was supplied from mid-1982 to mid-1983. Indeed, from July through October, M1 growth was at a 1.7 percent annual rate. This slowing, along with increasing loan demand, will keep interest rates above their 1983 levels.

The third fundamental change in money market conditions is the expectation on the part of the general public that inflation will worsen. A year ago very good price news began to appear. It was followed early in 1983 with the 15 percent drop in crude oil prices that produced very favorable price news for several months. During this period, price expectations were revised downward. As we approach the end of 1983, there has been more than one year of very rapid money growth, and prices have undergone some acceleration from their lows in early 1983. Inflation expectations are at best neutral and at worst are being revised upward in contrast to a year ago. Hence interest rates, which carry an inflationary premium, will be prevented from falling to their early 1983 levels during the coming year.

Economic and political factors

Despite the factors suggesting interest rates will remain above the levels in 1983, there are three economic and political factors that suggest an upper limit on interest rate movements.

The first factor limiting interest rate increases concerns the situation in which debtor countries currently find themselves. Saddled with a mountain of external debt, and experiencing a weak market for their exports, many of these countries find it difficult to earn enough foreign exchange to service their debts. Higher U.S. interest rates aggravate the situation by increasing debt service payments that are, for the most part, tied to the prime lending rate in the U.S., or the Eurodollar rate.

It seems unlikely that the Fed would want to unnecessarily aggravate the position of the debtor countries when Federal Reserve Chairman Volcker has worked so hard this year to avert serious financial problems. Many domestic banks would experience a serious erosion of their capital if a number of debtor countries repudiated their debt. Consequently, the Fed can let rates move up only within a limited range without those undesirable consequences.

Second, unemployment in the U.S. is still politically too high. A substantial increase in interest rates would seriously hurt the interest-sensitive sectors of the economy such as housing, autos, and other durable goods manufacturing, aggravating the unemployment problem. This would create political pressures to impose more congressional control over the Fed regardless of who wins the White House.

The third and least important reason for a limit on higher interest rates is the presidential election in the United States in November 1984. Federal Reserve policies have enjoyed the support of the Reagan Administration for the past four years, hence we do not expect the Fed to pursue a policy of substantial tightening resulting in major interest rate increases through mid-1984 leading up to the election.

For these three reasons—the position of the debtor countries, the unemployment problem, and the Fed's political interest—the Fed's latitude for upward rate movements is limited through 1984.

Given the economic and political conditions that will constrain interest rate movements next year, we expect interest rates to be limited within a narrow range. The prime rate, for example, is expected to vary in the 11 to 13 percent range. On the upside, rates are unlikely to rise more than one or two percentage points from current rates and likewise, on the downside, rates are not likely to decline below 11 percent in 1984. The two percentage-point range within which the prime interest rate is expected to remain next year is the narrowest since 1977, with the exception of 1983.

Housing and finance

Mortgage interest rates are subject to the same forces we discussed earlier. In

continued

Dr. Michael S. Salkin is Vice President and Senior Economist with Bank of America's Economics-Policy Research Department, and Head of California Economic Research.

Dr. Daniel T. Van Dyke is Senior Economist and Head of US Economic Forecasting in the Economics and Policy Research Department, Bank of America World Headquarters San Francisco, California.

Table 1

	Mortgage Interest Rates[1]	Housing Starts[2] (000)	Existing House Sales[3] (000)	Mortgage Originations[4] ($ bill.)
1975	9.01%	1161	2452	$ 77.9
1976	8.99	1538	3002	112.7
1977	9.01	1987	3572	161.9
1978	9.59	2020	3863	185.0
1979	10.85	1745	3701	186.5
1980	12.85	1292	2881	133.7
1981	14.91	1084	2350	98.2
1982	15.31	1060	1947	95.0
Est 1983*	13.25	1708	2700	170.8
Est 1984*	13.95	1750	3100	225.6

*Estimates for 1983–84 are Bank of America forecasts.

[1]*Source: FHLB Journal-Tables 5.1-Terms on Conventional Home Loans Made: National Averages for all Types of Lenders*

[2]*Source: U.S. Bureau of the Census, Construction Reports, Series C-20 and C-25.*

[3]*Source: National Association of Realtors—Existing Home Sales Annual Report.*

[4]*Source: Regional Data Associates Quarterly Report*

addition, there are other factors affecting changes in mortgage interest rates. Those factors are the level of new construction and resales and the type of financing used to consummate sales.

As shown in Table 1, housing starts, house resales, and mortgage originations all have been historically affected by changes in interest rates. The increases in interest rates in recent years have led to dramatic declines in levels of housing activity. From 1978 to 1979, for example, mortgage rates increased an average of only 126 basis points, starts declined 14 percent, and resales declined 5 percent. The use of seller financing kept resales from declining even further. From 1980 to 1981, interest rates increased an average of 207 basis points, and starts fell another 16 percent, with resales falling 18 percent. In addition, mortgage originations by institutional lenders declined 20 percent on a year-over-year basis.

During 1983, the housing industry recovered. The drop in interest rates triggered a 61 percent increase in starts, a 39 percent rise in sales, and an 80 percent increase in mortgage originations.

However, activity during the year first increased and then decreased as interest rates changed.

For the first six months of the year, starts and resales increased dramatically as interest rates declined. Starts increased approximately 80 percent, and sales increased 42 percent on a year-over-year basis. During the second half of the year, as interest rates increased, starts and sales slowed. Likewise, mortgage origination activity increased by 104 percent in the first half and is expected to increase much more slowly in the second half of the year.

As these data indicate, seemingly small changes in interest rates affect housing rather dramatically. As a general rule, "each percentage point drop in mortgage interest rates from 17 percent to 12 percent will result in an increase of at least 2.2 million qualified households."[1]

In 1984, continued improvement of the real estate industry depends almost entirely on the path of interest rates as consumer incomes grow, unemployment declines, and demographic demand remains favorable. Should mortgage interest rates stay at levels above their 1983 levels as we expect, then 1984 will be a period of slow growth for the industry.

As shown in Table 1, starts will increase 2.5 percent to a level of 1.75 million units, sales will increase 15 percent, and originations will increase 32 percent.

[1]*Joseph Hu, Bond Market Research,* Housing Analysis, *Salomon Brothers Inc., June 9, 1982.*

Alternative mortgage instruments

The rising interest rate environment in the second half of 1983 brought the increased use of mortgage instruments designed and used during the high rate environment of the early 1980s. When mortgage rates were out of reach for many buyers, lenders devised mortgage instruments that reduced buyers' monthly debt service burdens and in some cases shared interest rate risk. Graduated Payment Mortgages (GPMs), Growing Equity Mortgages (GEMs), and Adjustable Rate Mortgages (ARMs), gained in popularity.

These mortgages instruments were designed to reduce initial monthly payments below what they would have been on a comparable fixed-rate loan. Despite the advantages these loans offer—primarily lower initial monthly payments—they have distinct disadvantages. In the case of the GPM and GEM loans, monthly payments increase on a scheduled basis over time starting in the second year of the loan. In the case of the ARM, payments vary with changes in interest rates.

Given the disadvantages of these loans, buyers only agreed to them in order to qualify for home loans when interest rates were high. When interest rates dropped in early 1983, buyers quickly opted for traditional fixed-rate mortgages that became available.

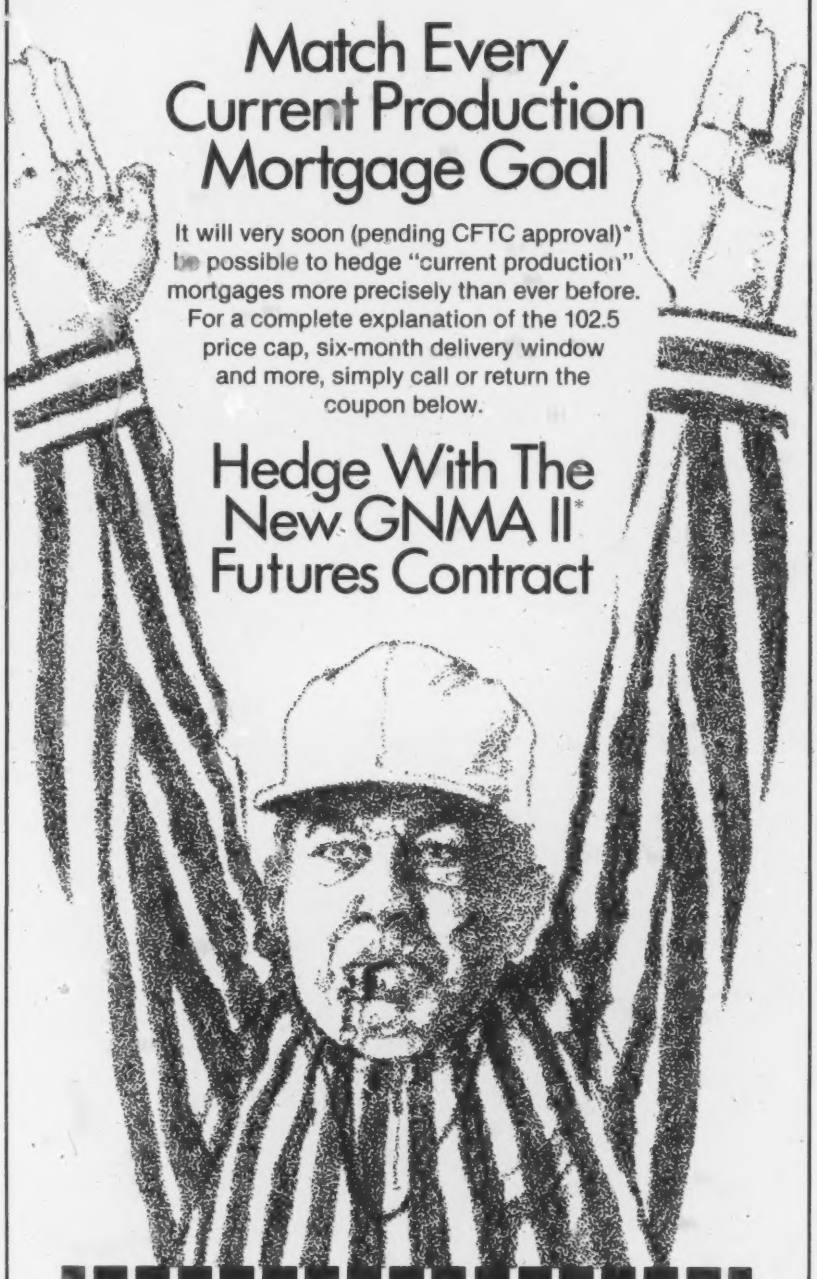
As interest rates increased in the second half of the year, ARMs again became popular. In 1983, almost 50 percent of all loans closed were originated with an adjustable rate mortgage instrument, compared with 40 percent in 1982.

continued

Match Every Current Production Mortgage Goal

It will very soon (pending CFTC approval)* be possible to hedge "current production" mortgages more precisely than ever before. For a complete explanation of the 102.5 price cap, six-month delivery window and more, simply call or return the coupon below.

Hedge With The New GNMA II* Futures Contract



CALL 1-800-621-4641 (In Illinois 1-800-572-4217) OR WRITE FOR OUR FREE LITERATURE EXPLAINING THE CONCEPT AND DEFINING THE TERMS.

MAIL TO: Marketing Manager-Financial Instruments
Chicago Board of Trade
LaSalle at Jackson, Chicago, IL 60604

NAME/TITLE _____

COMPANY _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

12/83

Chicago Board of Trade

Changes in housing finance

As interest rates increased in the last half of 1983, changes in housing finance began to take place. The increase in interest rates caused a resurgence of financing schemes used by individual sellers and builders in the period of high interest rates from 1980 to 1982. More sellers again resorted to carrying their own financing to sell their houses as rising rates slowed the resale market. More builders resorted to offering subsidized interest rates to buyers in order to make their newly constructed houses more affordable.

Early in 1983, the use of seller financing declined by 50 percent from the levels and dollar volumes of 1982. The use of loan assumptions, combined with seller-carried financing, declined from approximately half of all sales to less than a quarter of all sales. In the second half of 1983, as the rise in interest rates made institutional interest rates unaffordable for many buyers, seller financing increased. While the use of seller finance did not reach the more than 50 percent share that occurred in 1982, the use of assumptions and seller-carried seconds is expected to increase to a 30 percent share of all sales transactions in 1984.

Outlook

The fundamental economic and political conditions influencing the money market will be considerably different in 1984 from that in 1983, leading to higher interest rates in 1984. However, those conditions suggest that interest rates will continue to be relatively stable.

Moreover, those fundamental conditions suggest that mortgage interest rates in 1984 will be at a slightly higher level on average but that they will be less volatile. Consequently, the level of activity in the real estate industry will remain high, even though the rate of growth will slow dramatically.

Because interest rates have moved up since early 1983, we have witnessed a return of seller financing and the use of alternative mortgage instruments.□

"Today, more than half of all mortgages originated nationwide are being pooled or packaged into mortgage-related investments for sale through the secondary markets."

THE MOVE TOWARD MORTGAGE SECURITIZATION

Michael A. Smilow

The largest potential growth area of the fixed-income investment market is the mortgage-backed security—an investment that promises to link the mortgage markets and the capital markets in a way that will benefit homebuyers, mortgage originators, and institutional investors alike.

Today, more than half of all mortgages originated nationwide are being pooled or packaged into mortgage-related investments for sale through the secondary markets. To spur continued growth of such vehicles, government and private industry have joined efforts in a drive to create a new environment for mortgage investments—through the securitization process. Packaging mortgage investments in security form enhances investment potential by moving away from the purchase and servicing of whole loans toward a more standardized mortgage-related security that can appeal to the broader investment community.

The move toward securitization of mortgage products not only demonstrates industry optimism for the potential of a streamlined and marketable security, but also reflects changes taking place in the primary mortgage market—changes that have demanded the creation of a more manageable, investor-oriented mortgage instrument.

The market for home mortgage debt continues to be the nation's most decentralized capital market. The mortgage credit system has undergone dramatic changes, while the impact of deregulation has meant an end to low-rate deposits and inexpensive local lending funds.

Coping with changes

Thrift institutions, which traditionally dominated the mortgage lending market, can no longer rely on local savings dollars to support local mortgage origination activity. In fact, savings and loan associations have seen their market share of origination volume decline from a high of 60 percent in 1977 to 41 percent in 1982. Mortgage bankers, including mortgage banking subsidiaries of savings institutions, on the other hand, are simultaneously increasing their share of mortgage originations.

With deregulation of savings rates and sharp changes in the interest rate environment, lending institutions are being forced away from the standard, fixed-rate, long-term, fully-amortized mortgage. Mortgage lenders recognize that this traditional mortgage instrument can be risky to originate for holding in their portfolios. The result has been that lenders are originating variable and adjustable rate mortgages that are more compatible with their new patterns of cost of funds and, when sold in the secondary market, offer a premium investment product.

The business of raising capital from diverse capital market outlets has become central to our industry's ability to meet the financing needs of the primary mortgage market. Securitization will further broaden market opportunities to generate capital by increasing the appeal of mortgage securities to non-traditional investors.

In essence, the process will enable investors to commit to mortgage-related investments without undertaking the administrative burdens of individual mortgages, with greater liquidity, and with even less risk than is associated with the underlying mortgage obligations themselves.

While mortgage-backed investments have, to date, successfully met the needs of certain investors, the market has the potential to expand significantly—by appealing to new, nontraditional institutional investors, such as pension funds, insurance companies, and other money managers.

Mortgage security status

Attracting these investors, however, requires a mortgage security that is structured to perform like other high value corporate securities—while offering the diversification and high credit quality benefits of home mortgages. Efforts to help mortgage security characteristics resemble corporate bond instruments are now underway by Federal Government decision-makers and private industry.

As part of the current effort to develop comprehensive legislation that would revamp the secondary mortgage market, three general areas of change are being considered: technical proposals to enhance the private secondary market; modifications of the Securities and Exchange Acts of 1933 and 1934; and passage of the Trusts for Investments in Mortgages (TIMs) concept.

These various technical and legal changes being considered are all part of an effort to expand participation by private issuers and broaden the appeal of such investments among investors. The purpose is to create a more liquid market for such investments to aid customers at both ends of the transactions.

The most notable proposal being reviewed is the TIMs concept to allow more active pool management and control of mortgage securities, both of which are currently restricted. The proposal directly addresses some inherent aspects of mortgage securities that have prevented their widespread acceptance by many institutional investors.

TIMs, in essence, is not a program, but a concept of regulatory and tax changes that would extend the flexibility and management under which such securities could be issued by private entities. The underlying goal of the proposal is to offer more flexibility between the contractual mortgage and a contractual mortgage-backed investment by permitting the issuer to manage assets more closely to meet specific investor preferences.

Continued expansion of the mortgage securities market has been hin-

continued

Chart 1

Securitized Single-Family Organizations

	Private Companies	vs	Federal Agencies
1976	$ 27M		$14,548M
1977	255M		21,393M
1978	888M		21,018M
1979	1,763M		28,576M
1980	994M		22,245M
1981	1,465M		14,613M
1982	2,439M		52,814M*
1983	(N/A) (first eight months)		56,000M*

Source: Federal National Mortgage Association (FNMA) Research. Salomon Brothers, Inc.

**The figures for 1982 and 1983 include swap programs.*

dered by the inherent behavior of the underlying mortgage—the lack of call protection, inflexible interest, and unpredictable principal payments, resulting in difficulties in evaluating effective yields through various maturities within a specific pool. Under the TIMs concept, however, many—if not all—of these perceived negative aspects could be mitigated.

With call protection or reinvestment options, investors could be buffered from some of the unpredictable, typical mortgage behavior, including defaults, delinquencies, and prepayments. By breaking up the cash flow to less-frequent payments, issuers can assure investors of a more predictable and manageable investment. And by taking into consideration the application of more managed principal repayment rates, issuers can provide a dependable valuation of the security as designed to meet particular investor needs.

Of utmost importance is the potential for structuring of payment schedules within a total mortgage pool to provide sequential or serialized principal repayments, rather than the rigid pro-rata distributions now required for pass-through mortgage securities.

This suggests that investors can purchase a more predictable piece of the cash flow, with beginning and ending dates of principal repayments established to some degree rather than be limited rigidly to a pro-rata portion of the cash flow, for the entire life of the underlying mortgages.

The value of this aspect of the TIMs concept is reflected in the recent, spectacular introduction and acceptance of Collateralized Mortgage Obligations (CMOs) managed by the Federal Home Loan Mortgage Corporation with three different maturity patterns.

In addition, other mechanisms, such as unit investment trusts and mutual funds specializing in mortgage-backed security investments, are also emerging as viable mortgage investment alternatives for certain investor groups. Also, mortgage pass-through securities are being "bondized," particularly by homebuilders and home finance companies, to create more flexible investment packages. All of these developments suggest that there is a real market demand for "premium" tailored mortgage products. Market conditions are right for a securitized mortgage vehicle, provided such an investment can be structured to meet an investor's desired investment goals. And the private participants in the mortgage securities market have realigned to accept these new challenges.

Michael A. Smilow is senior vice president of MGIC Investment Corporation, Milwaukee, Wisconsin. He is also president of the company's Commercial Loan Insurance Corporation and MGIC Mortgage Marketing Corporation subsidiaries. He joined the company in 1980. Earlier, Smilow was a deputy director of the office of State Agency and Bond Financed Programs for the Department of Housing and Urban Development (HUD), Washington, D.C.

Secondary market players

Until recently, the mortgage-backed securities market has been dominated by three Government and quasi-governmental Federal credit agencies—the Government National Mortgage Association (Ginnie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mae), and the Federal National Mortgage Association (Fannie Mae).

Now, however, private industry players are offering competitive mortgage investments and services designed to supplement Federal activities and to fill market niches not serviced by the Federal agency programs.

Today, a series of private conduit companies, including MGIC's Mortgage Marketing Corporation's "Maggie Mae," and similar efforts by such organizations as General Electric Credit Corporation and Merrill Lynch Mortgage Capital, Inc., are working to link the homebuyer with the capital markets investor. One of the newest major market programs is Residential Funding Corporation, a subsidiary of Norwest Bancorporation.

This burgeoning mortgage-backed securities market—while a relatively new industry—is evidenced by the dollar volume of originations being converted to mortgage security form. (See Chart 1.)

FNMA research reveals that private sector activity has increased from $27 million in 1976 to more than $2.4 bil-

continued

Commercial Mortgage Loan Correspondent Originators Wanted.

BANKERS AND MORTGAGE EXECUTIVES:

INCREASE FEE INCOME WITH THE HOWARD TAYLOR & COMPANY CO-BROKERAGE PLAN.

Here's how the Howard Taylor & Company Co-Brokerage Plan can expand your fee income from commercial and income property lending:

1. Talk to us. We'll help you design and place the right real property financing package for your customer's needs.

2. Let our experienced staff provide everything you need: Analysis, Packaging, Investor Marketing, Site Inspection and Closing... all at no cost to you.

3. Relax. We take the guesswork, time and effort out of complicated financial negotiations between borrower and lender.

Our reputation is built on a commitment to discover successful financing solutions to investment objectives... we're proud of that.

For more information, call:

HT Howard Taylor & Company

A Concern For Your Profitability

Mortgage Brokers/Investment Bankers
16 E. Main Street
Rochester, NY 14614
(716) 232-1880
NASD/SIPC

lion in 1982. In comparison, the Federal agency programs, which reached a peak of $28 billion in 1979, had already exceeded $56 billion during the first eight months of 1983. This record volume is due, in part, to the introduction of swap programs to exchange mortgages for mortgage pass-through securities issued by FHLMC and FNMA.

Recent industry patterns and innovations in the secondary market lend credibility to the argument that mortgage-backed securities do have a place in investment portfolios. A well-designed mortgage product offers an intermediate term investment that has the safety and risk spread of a custom-tailored investment. Mortgage-related investments can be packaged in a number of ways and backed by a variety of short- or long-term loans and housing types to meet a particular investor's return-on-investment goals.

At MGIC, we believe securitization will determine the course of secondary mortgage market activity in the months and years ahead. As a result, we—like other private mortgage insurers—are working to develop customized mortgage pool and special hazard insurance programs to provide necessary protection and financial guarantees to reduce investment risk. Such programs will not only enhance the reliability of mortgage cash flow but also give unique and superior value to the home mortgage itself, as collateral for fixed-income debt.

Today, there is a merging of talents as mortgage originators and servicers, private mortgage insurers, and investment marketing organizations develop industry partnerships to provide innovative and well-managed mortgage investments. If current legislative proposals are successful, mortgage market securitization promises to accelerate and expand the role of the home mortgage loan as the basis for an efficient and high-quality bulk investment—a premium investment on par with other corporate securities that are suitable and attractive to a broad range of fixed-income investors, both institutional and individual. □

Mortgage Securities

PREDICTING PAYMENTS

Scott M. Pinkus
Evan B. Firestone

The uncertainty in valuing a mortgage security has hindered the development of the market for these instruments. At the heart of the problem is the issue of prepayments—what they are, and why they matter.

A mortgage security usually consists of a group of mortgages, any one of which can be prepaid prior to its maturity. Because of the potential for early prepayment, the timing and magnitude of the principal payments to the security holder are uncertain. The rate of principal payback, particularly that resulting from prepayments, must be estimated in order to determine the value of these securities. The faster the principal is returned on a security purchased at a premium, the lower the yield will be, while the converse is true of a security purchased at a discount.

An understanding of the various methods that currently exist for estimating prepayments is necessary in order to participate effectively in this market. The use of conditional prepayment rates (CPRs) provides the clearest and most accurate representation of principal prepayments and therefore the best estimate of the value of a mortgage security.

• *continued*

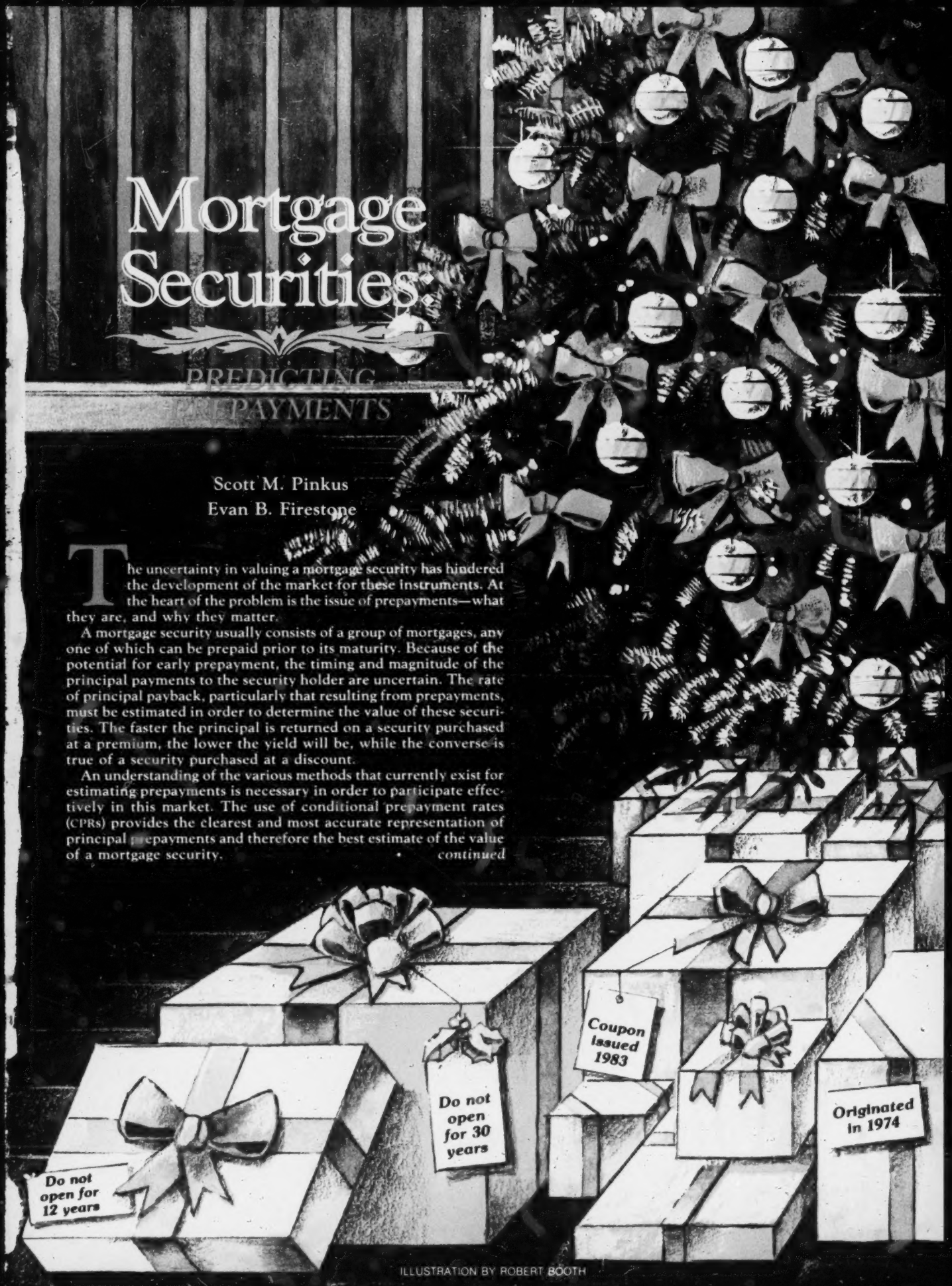


ILLUSTRATION BY ROBERT BOOTH

Twelve-year life convention

The flaws inherent in the two most commonly used methods of estimating prepayments, the 12-year life prepayment assumption and a percentage of FHA experience, are well documented.[1] The 12-year life convention, the implicit prepayment assumption used in quoting yields on 30-year mortgage securities, was adopted during the early years of the mortgage securities market to standardize mortgage calculations. The assumptions behind this convention, however, are not realistic in today's marketplace. The 12-year life method assumes a security is backed by new 30-year mortgages whose cash flows consist of interest and scheduled amortization of principal for 12 years and full prepayment of principal at the end of the twelfth year. Because many of the securities outstanding in the market are significantly aged, the assumption that they are new is a serious departure from reality. In addition, the convention was adopted during a period of relatively stable interest rates when the range of mortgage rates outstanding was narrow.

In the current volatile interest rate environment with a wide range of security coupons outstanding, the assumption of full prepayment after 12 years, or any other point estimate, cannot be meaningfully applied across these varying coupons. Because the cash flow distribution that a point estimate implies is unrealistic, the valuation of a security based on this convention is inaccurate and often seriously misleading.

continued

Evan B. Firestone is a security analyst in the Mortgage-Backed Securities Research Department of the Debt Strategy Group at Merrill Lynch Capital Markets. Prior to joining Merrill Lynch, he worked as an options strategist for Delta Securities in New York.

Scott M. Pinkus is vice president and manager of the Mortgage-Backed Securities Research Department in the Debt Strategy Group at Merrill Lynch Capital Markets. He joined Merrill Lynch in 1980 as a senior research analyst in the department. Prior to that, he worked as a consultant in the mortgage securities area. He has also worked for the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank of Philadelphia.

Editor's Note: Portions of this article originally appeared as one in a series of reports published earlier this year by the Mortgage-Backed Securities Research Department of the Debt Strategy Group, Merrill Lynch Capital Markets. The authors updated the information for publication in Mortgage Banking. *Larry Guidarelli assisted the authors in developing their prepayment data base.*

The newest name in the mortgage business is really an old friend.

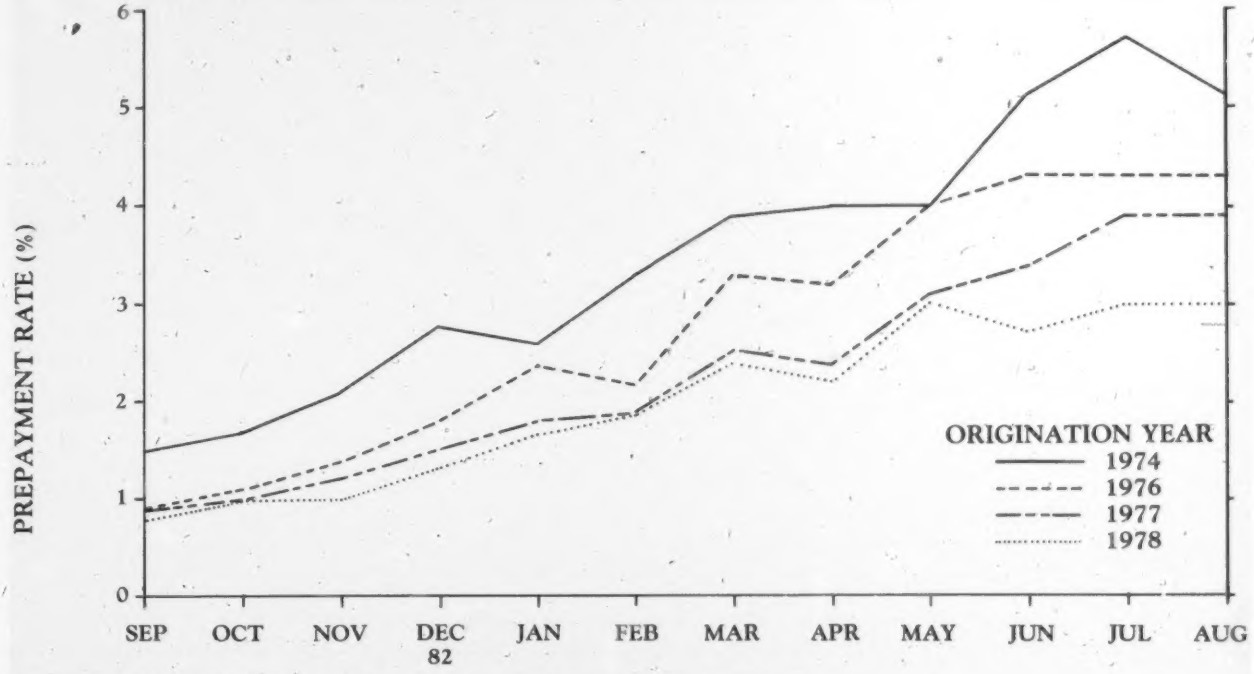
First Security Realty Services *is a new name, But it's the result of combining four of the oldest and best names in the business: Utah Mortgage Loan Corporation, Securities-Intermountain, Inc. (SIMCO) First Security Mortgage and The First Security Real Estate Finance Division of First Security Corporation.*

With almost a century in business, First Security Realty Services, now administers a $3.0 billion portfolio nationwide, with 24 offices in all 12 Western States. Our personnel, locations and account relationships don't change. What changes is our speed of decision making and expansion of the services you can expect from us. We may be a new name, but we're still the professional mortgage bankers people have been relying on for almost 100 years.

First Security Realty Services
79 South Main, Salt Lake City, Utah 84125 (801) 350-5000
First Security Realty Services [West]
1336 East Burnside Street, Portland, Oregon 97214 (503) 231-3400
A financial service of the First Security Corporation

Figure 1

GNMA Single-Family 8% Securities
Annualized Conditional Prepayment Rates (%)



Source: Merrill Lynch Capital Markets, Debt Strategy Group, Mortgage-Backed Securities Research

FHA experience

Estimating prepayments by using a percentage of FHA experience resolves some of the problems of a point estimate calculation by taking the age of the security into account and by using a cash flow distribution more representative of actual experience. The problems with this method, however, are significant. The FHA series represents the termination distribution (prepayments and defaults combined) of all FHA-insured mortgages written between 1957 and 1981 aggregated by mortgage age. Terminations, therefore, are averaged across vastly different interest rate environments. The rates on the mortgages comprising the experience are also different.

Using the termination experience of mortgages with different rates under different economic environments, or an arbitrary multiple of this experience, is of dubious value in estimating future prepayments.

Conditional prepayment rates

A technique for analyzing prepayments that is more realistic than either the 12-year life convention or a percentage of FHA experience involves the use of conditional prepayment rates (CPRs). The conditional prepayment rate is the percentage of principal outstanding at the beginning of a period that prepays during that period. The CPR is calculated using the actual experience of mortgage securities, and so does not suffer the drawback of being an arbitrary calculation, such as the 12-year life assumption, or of being linked to an inaccurate termination distribution, such as FHA experience.

Because the CPR calculation is conditional upon the prior period's ending principal balance, the age of the security is taken into account. The cash flow distribution that is generated using a constant CPR or series of varying CPRs can be more representative of the actual distribution of prepayments on a mortgage security. More significantly, a CPR is a pure number that can be easily interpreted, understood, and tracked in the marketplace.

While many market participants have already recognized the importance of using conditional prepayment rates, the specific calculation technique has not been standardized. The result has been an abundance of contradictory information circulating in the market.

There are several issues involved in computing these numbers that must be

continued

Figure 2

GNMA Single-Family Securities
Annualized Conditional Prepayment Rates (%)

Coupon:	8.00	8.50	9.00	9.50	11.00	11.50	12.00	12.50	13.00	13.50	14.00	15.00	16.00	17.00
Issued:	All	All	All	All	All	All	All	All	All	All	All	All	All	All
Sep. 82	1.0	1.0	1.2	1.2	2.3	2.0	0.7	3.4	3.0	4.1	2.1	2.2	4.1	12.0
Oct. 82	1.1	1.5	1.5	1.2	2.0	2.2	1.1	3.4	3.1	3.6	2.5	3.1	9.7	21.5
Nov. 82	1.4	1.9	1.3	1.4	2.4	2.3	0.7	4.4	3.8	3.9	3.6	7.8	22.2	30.8
Dec. 82	1.7	2.0	1.5	1.5	2.6	2.3	0.5	4.3	3.8	4.8	6.7	17.0	34.2	44.7
Jan. 83	2.0	2.2	1.6	1.8	2.7	2.7	1.3	4.4	3.9	6.8	11.6	29.0	46.0	55.8
Feb. 83	2.2	2.4	1.8	1.8	2.8	1.5	0.7	4.3	4.0	6.0	14.2	31.6	47.6	54.2
Mar. 83	2.8	3.2	2.2	2.2	3.5	1.3	1.2	5.9	5.2	8.9	22.0	43.6	59.3	64.4
Apr. 83	2.7	3.0	2.2	2.2	3.2	1.2	1.0	7.5	6.8	9.7	20.4	38.2	53.8	52.5
May 83	3.5	3.8	2.9	2.6	3.9	1.2	1.3	7.2	7.1	12.8	26.1	43.5	56.7	64.6
Jun. 83	3.7	4.1	3.1	3.0	4.1	1.3	1.8	7.8	7.1	12.3	19.3	33.1	45.5	53.4
Jul. 83	3.9	4.2	3.1	2.9	3.6	1.2	1.7	7.2	6.6	9.6	17.1	26.3	35.8	43.3
Aug. 83*	4.0	4.6	3.4	3.5	3.8	1.4	1.5	8.1	7.2	10.0	15.0	23.9	36.2	42.6
Last 3 Mo.	3.8	4.3	3.2	3.2	3.8	1.3	1.7	7.7	7.0	10.7	17.2	28.0	39.5	46.9
Last 6 Mo.	3.4	3.8	2.8	2.8	3.7	1.3	1.4	7.3	6.7	10.6	20.2	35.7	49.6	55.2
Last 12 Mo.	2.5	2.8	2.1	2.1	3.1	1.4	1.3	5.7	5.2	7.9	13.6	25.7	38.3	45.4
Total Pools	10191	2651	6470	3775	4601	6493	1394	2364	2126	1500	1033	3025	953	283
Orig. Bal. $MM	25297	5747	16896	11314	12446	22923	3707	5221	4870	3150	2171	7620	1964	540
Pools Reporting	10041	2600	6381	3722	4507	6322	1367	2300	2049	1438	1007	2948	905	266
Out. Bal. $MM	17377	3742	14335	10340	11530	22169	3624	4612	4412	2694	1817	5468	1125	263
Current Factor	0.6993	0.6622	0.8595	0.9226	0.9400	0.9887	0.9903	0.9007	0.9324	0.8915	0.8535	0.7331	0.5976	0.5214

*Preliminary

Source: Merrill Lynch Capital Markets, Debt Strategy Group, Mortgage-Backed Securities Research

understood. Historical pool data released by the Government National Mortgage Association, for example, contain errors both in descriptive pool information, such as issue dates, maturity dates, and coupon rates, and in remaining principal balances.

Merrill Lynch has devised sophisticated error-checking procedures using principal amortization schedules to flag and eliminate incorrect data from inclusion in the calculation of historical conditional prepayment rates on individual GNMA securities or on groups of these securities. Each pool factor is checked to determine whether the reported principal reduction is large enough to cover scheduled amortization. Any factor failing this basic test is flagged for closer examination.

These error procedures avoid the pitfalls of simpler error-checking techniques such as those based solely upon arbitrary limits for changes in reported pool factors. An example of a simplified approach would be one that flags any pool factor that drops by more than 20 percent in one month, such as from .9 to .65, without considering market conditions.

Simple data-checking procedures cannot work in a volatile interest rate market because any limit established will be too wide in some cases (and not flag incorrect data) or too narrow in other situations (excluding correct but dramatic occurrences). The recent experience of 17 percent GNMAs prepaying at rates never before seen in the GNMA market is an example of the latter situation.

The state-of-the-art error-checking procedures built into Merrill Lynch's prepayment data bases and the careful monitoring and checking of the data every month ensure the accuracy and reliability of our prepayment statistics.

Interpreting the results

The prepayment rates currently being discussed in the market differ both in presentation and aggregation technique. Because older securities generally have higher prepayment rates than newer securities with the same coupon, CPRs are most informative when the

continued

results are aggregated by the coupon and origination period of the securities examined. Many market participants do not distinguish between different origination years for a particular coupon, however. While aggregating CPRs by coupon is the next best technique, as can be seen in Figure 1, prepayments often vary significantly for GNMAs with the same coupon that were originated in different years.

Conditional prepayment rates for a given month can be expressed as the percentage of principal outstanding at the beginning of the month that prepays during the month. Comparisons between prepayment rates can be made more meaningful, however, by annualizing the monthly rates to reflect the effect of compounding.[2]

Merrill Lynch computes annualized CPRs by aggregating the monthly prepayment rates for the individual pools before annualizing these rates. If the monthly CPRs for individual pools are annualized before they are weighted and averaged, the resulting prepayment rate calculated for that group is statistically incorrect and may understate the true CPR by as much as 20 percent. Before market participants can effectively value their mortgage securities, they must develop a basic understanding of these issues.

A prepayment matrix showing annualized conditional prepayment rates for each of the last 12 months for selected GNMA coupons is shown in Figure 2. The information illustrates how prepayment rates vary by coupon and provides a clear picture of GNMA prepayment patterns over the last year.[3] Figure 3 provides a more detailed breakdown of prepayments for GNMA 8 percent securities by presenting the results according to the origination year of the securities.

Necessary change

The mortgage securities market has reached a size and level of sophistication that warrants a change in the established methodology for valuing mortgage securities. In a volatile interest rate environment with a wide range of security coupons available, the 12-year life standard does not provide a realistic measure of relative value. Market participants must recognize the realities of this market and adopt the use of conditional prepayment rates as the new standard for mortgage calculations. Only by increasing its level of sophistication can the mortgage securities market continue its rapid growth in size and importance. □

Figure 3

GNMA Single-Family Securities
Annualized Conditional Prepayment Rates (%)

Coupon:	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Issued:	71	74	75	76	77	78	All
Sep. 82	2.6	1.5	1.2	0.9	0.9	0.8	1.0
Oct. 82	2.3	1.7	1.6	1.1	1.0	1.0	1.1
Nov. 82	2.6	2.1	1.9	1.4	1.2	1.0	1.4
Dec. 82	3.3	2.8	2.1	1.8	1.5	1.3	1.7
Jan. 83	3.2	2.6	2.4	2.3	1.8	1.7	2.0
Feb. 83	3.4	3.3	2.6	2.2	1.9	1.9	2.2
Mar. 83	3.9	3.9	3.2	3.3	2.5	2.4	2.8
Apr. 83	3.2	4.0	3.1	3.2	2.4	2.2	2.7
May 83	4.7	4.0	4.4	4.0	3.1	3.0	3.5
Jun. 83	4.9	5.1	4.3	4.3	3.4	2.7	3.7
Jul. 83	4.3	5.7	3.8	4.3	3.9	3.0	3.9
Aug. 83*	5.4	5.1	4.9	4.3	3.9	3.0	4.0
Last 3 Mo.	4.9	5.3	4.3	4.3	3.7	2.9	3.8
Last 6 Mo.	4.4	4.6	4.0	3.9	3.2	2.7	3.4
Last 12 Mo.	3.6	3.5	3.0	2.8	2.3	2.0	2.5
Total Pools	393	601	877	2758	3603	1760	10191
Orig. Bal. $MM	1454	1867	1751	6280	8753	4557	25297
Pools Reporting	378	588	860	2707	3569	1749	10041
Out. Bal. $MM	483	905	997	4100	6788	3791	17377
Current Factor	0.3446	0.5016	0.5794	0.6719	0.7823	0.8355	0.6993

*Preliminary

Source: Merrill Lynch Capital Markets, Debt Strategy Group, Mortgage-Backed Securities Research

[1] *See Helen F. Peters, "Pricing a Mortgage-Backed Security—The Misuse of FHA Experience," The Money Manager December 17, 1979; "Prices and Yields on Mortgage-Backed Securities—The Assumptions Make the Difference," Mortgage Banker September 1980; and Scott M. Pinkus, "The Efficiency of the Market for GNMA Mortgage Pass-Through Securities," Mortgage-Backed Securities Research Special Report Series, Merrill Lynch Capital Markets.*

[2] *A monthly prepayment rate can be annualized by the following formula where Pr_t is the rate for month t:*

$$\text{Annualized CPR} = 1 - (1 - PR_t)^{12}$$

[3] *GNMA factors refer to the last day of the month immediately preceding the actual GNMA payment date. August prepayment rates, therefore, are based on the August 31 factor, but apply to GNMA payments made on September 15.*

MORTGAGE MARKET TRENDS

November 11, 1983

Debate on the importance of the Federal budget deficit continues within the Administration, among the Presidential candidates, and throughout the public at large. The last surplus in the Federal budget was achieved in 1969. Since then, the total Federal debt has increased from about $100 billion to more than $1 trillion, just about in step with GNP growth. The more important shifts in the Federal budget during the past 20 years are in the mix of spending categories, increasing indexation of certain spending programs, and, more recently, the Reagan initiative to reverse the growth of the public sector. These shifts have much to do with the current deficit problem and the potential for a solution.

In the early 1960s, national defense spending accounted for 45 percent of Federal outlays. Human resources spending took less than 30 percent, and net interest payments on the debt stood below 7 percent of all Federal outlays. By the end of that decade, military and social spending had increased sharply, with the defense share down slightly and the social spending share up considerably. This trend continued throughout the 1970s, and by 1979 defense spending had declined to 24 percent of the budget, while human resource programs exceeded 50 percent. Due to the growing deficits and higher interest rates of that period, net interest was near 9 percent of outlays by 1979.

There was no major tax increase to pay for these expanding programs. Instead, inflation and the progressive income tax system combined automatically to increase Federal tax revenues through bracket creep. This effect was accelerated by the entry or reentry into the labor force of many married women, creating two-income households taxed at much higher marginal rates. A shortfall still existed in the budget, and borrowing made up the difference. The Federal deficit approached $60 billion in 1981, then a record-high level. The budget gap advanced to $110 billion in the following fiscal year and has been put at $195 billion for the fiscal year just ended. As a share of GNP, probably the best measure of its burden on the economy, the deficit has grown from about 2 percent ten years ago to 7 percent for fiscal 1983. A look at the relative contribution of the spending and revenue components of the deficit will help put the problem in perspective.

The Reagan tax cut passed in 1980 has reduced marginal tax rates by 25 percent. The more favorable treatment of real estate under the Accelerated Cost Recovery System also has reduced tax revenue somewhat during the past two years. Although these tax cuts have had an impact on Federal revenues, the chief cause of growing deficits has been expansion of Federal spending.

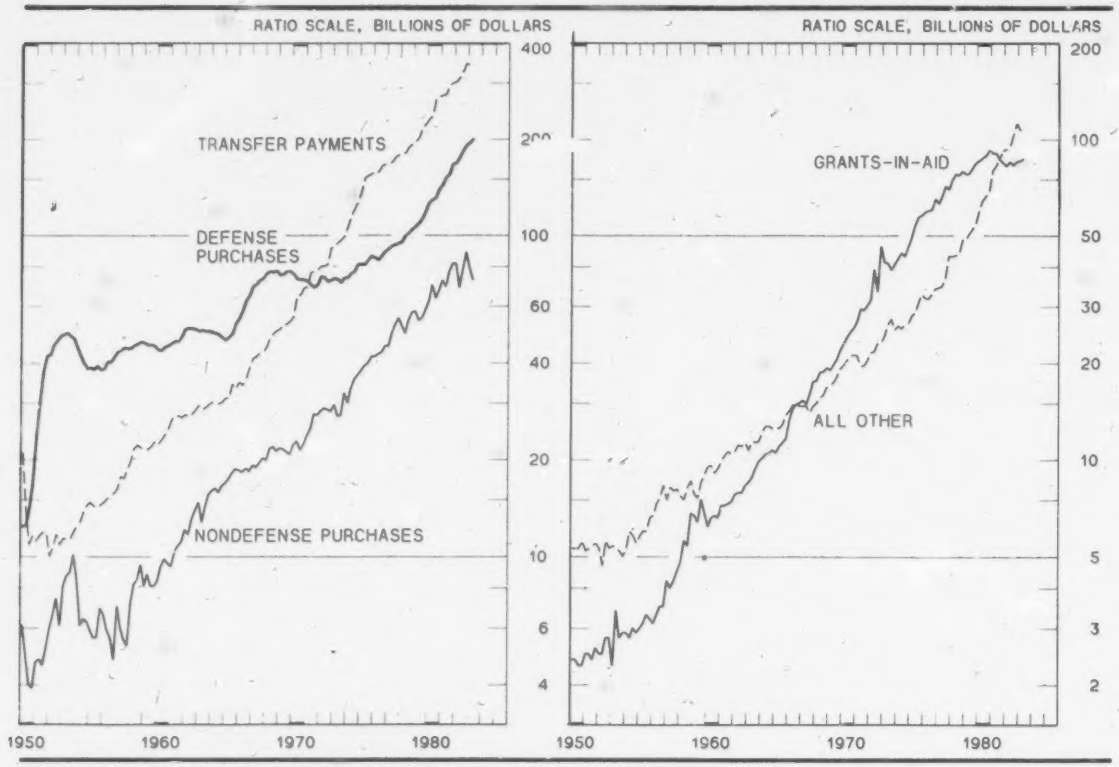
During the past ten years, Federal tax revenue as a percent of GNP has remained relatively level, at 18.5 percent. Spending during the same period has increased from 19.6 percent of GNP to 25.6 percent, a gain of almost one-third. Controlling the growth of Federal spending is difficult, because many programs have been indexed to inflation since the mid-1970s or are entitlement programs open to all who qualify. Congress has dealt with some of these problems, especially on the Social Security issue.

More progress is needed, however, to complete the job of putting Federal finances back on a sound footing. Only by lowering the deficit near 2 to 3 percent of GNP can we hope to have interest rates down to levels permitting sustained economic growth throughout the decade.

Dr. Warren Matthews
Senior Economist

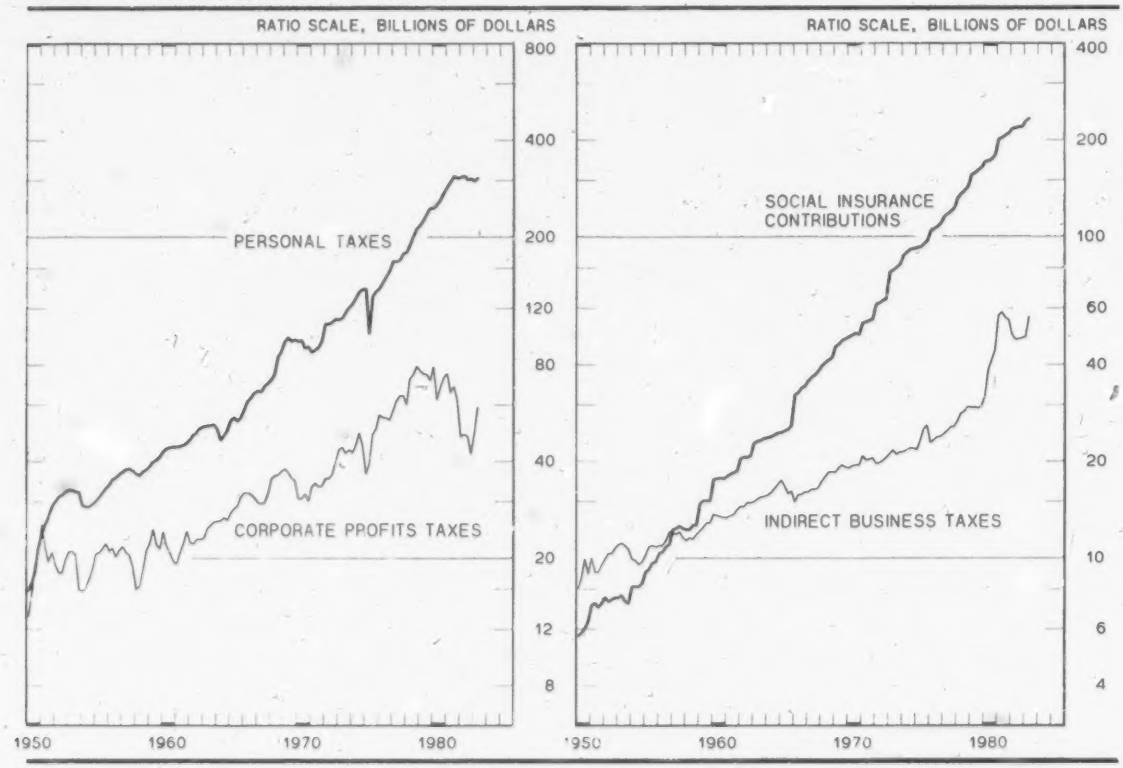
FEDERAL GOVERNMENT EXPENDITURES

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



FEDERAL GOVERNMENT RECEIPTS

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



Source : Federal Reserve Board

MORTGAGE MARKET TRENDS—DECEMBER 1983

RESIDENTIAL STRUCTURES, BY UNIT TYPE
(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
JUN	89	59	30	929	607	322	91	71	20	910	703	207
JUL	91	53	37	1,062	585	477	107	70	37	1,185	721	464
AUG	80	54	26	888	580	308	96	70	26	1,046	738	308
SEP	100	61	39	1,003	657	346	105	71	34	1,134	773	361
OCT	100	63	37	1,172	737	435	111	73	38	1,142	782	360
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,707	1,239	468
FEB	93	56	36	1,479	949	530	96	66	30	1,784	1,220	564
MAR	135	91	44	1,467	985	482	135	95	40	1,605	1,108	497
APR	138	93	45	1,536	982	554	136	103	33	1,506	1,118	388
MAY	149	104	45	1,635	1,076	559	175	124	51	1,807	1,279	528
JUN	171	114	57	1,761	1,160	601	173	125	48	1,736	1,250	486
JUL	147	92	55	1,782	1,057	725	162	113	49	1,804	1,167	637
AUG	153	97	56	1,652	1,007	645	177	121	56	1,909	1,255	654
SEP	148p	89p	59p	1,504p	962p	542p	154p	108p	46p	1,652p	1,150p	502p
9 months												
1983	1,219	792	426				1,300	919	382			
1982	699	445	253				761	541	220			
1981	791	542	248				871	653	219			
1980	875	612	263				930	704	226			

VALUE OF NEW CONSTRUCTION PUT IN PLACE
(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
JUN	116,619	34,398	14,950	67,271
JUL	116,632	35,270	16,085	65,277
AUG	117,960	35,852	16,774	65,334
SEP	118,274	36,309	16,728	65,237
OCT	118,591	36,895	16,720	64,976
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,596	25,082	59,348
AUG	157,350	68,783	26,025	62,542
SEP	156,284p	68,161p	24,562p	63,561p

HOUSE SALES
(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
JUN	192	34	253	8.3
JUL	183	31	251	8.5
AUG	186	34	247	7.5
SEP	168	40	248	6.9
OCT	173	41	245	6.1
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.1
MAY	259	64	271	4.9
JUN	283	59	283	5.4
JUL	260	52	289	5.9
AUG	280	51	298	6.4
SEP	242p	52p	302p	6.2p
9 months				
1983	2,115	484		
1982	1,462	297		
1981	1,909	345		
1980	2,202	416		

RESIDENTIAL STRUCTURES, BY REGION
(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
MAY	10	13	41	17	110	145	488	201	12	16	54	18	117	144	578	189
JUN	10	12	46	20	105	118	499	207	10	18	44	19	98	157	462	193
JUL	9	12	45	24	101	140	555	266	11	15	62	18	104	159	725	197
AUG	13	10	42	17	113	106	485	184	12	16	49	16	119	164	567	196
SEP	12	15	51	21	114	131	530	228	16	15	54	20	138	141	629	226
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	164	231	992	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	270	263	900	351
MAR	11	14	82	28	136	173	835	323	13	13	80	29	210	196	855	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	175	192	804	335
MAY	15	20	77	38	148	194	885	408	17	25	93	40	164	229	1,008	406
JUN	19	21	86	45	183	201	930	447	18	25	89	42	171	214	932	419
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	164	233	985	422
AUG	18	21	77	37	182	202	870	398	20	26	93	38	175	257	1,032	445
SEP	20p	22p	70p	37p	185p	188p	737p	394p	15p	24p	80p	34p	137p	229p	908p	378p
9 months																
1983	127	143	653	298					127	168	713	294				
1982	76	86	385	154					83	106	430	142				
1981	86	105	393	207					88	128	459	192				
1980	87	125	390	226					94	147	462	227				

CONSTRUCTION STATUS
(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
MAY	666	425	241	86	61	25
JUN	671	438	232	85	76	28
JUL	690	442	248	85	64	21
AUG	690	442	248	91	66	25
SEP	713	450	263	84	63	21
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	154	106	48
SEP	1,032p	637p	395p	133p	100p	33p
9 months						
1983				976	716	260
1982				714	522	211
1981				945	703	243
1980				1,025	697	329

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[2]	CONSTRUCTION LOANS[3] ALL TYPES	FNMA		GNMA Current Securities Yield[4]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields			Aaa Utility New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[1]	Conventional		Conventional				ARM (5 yr Treas)	Conv			10-yr	26-wk			
		New	Existing	New	Existing											
1982																
JUN	16.73	16.75	16.80	15.40	15.56	17.62			16.375	15.89	15.92	14.30	12.310	13.96	81	159
JUL	16.29	16.50	16.55	15.70	15.52	17.13			16.125	15.54	15.61	13.95	12.236	12.94	68	159
AUG	14.61	15.40	15.45	15.71	15.63	15.62	17.19		15.500	14.31	13.95	13.06	10.105	10.15	66	125
SEP	14.03	15.05	15.05	14.99	15.30	15.37			14.750	13.51	13.50	12.34	9.539	10.36	53	117
OCT	12.99	13.95	13.95	14.41	14.95	14.13		13.097	14.000	12.86	12.20	10.91	8.299	9.20	79	195
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.57p	12.86p	14.50		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION													
						1-4 Units					5+ Units					Nonresidental			
	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.
1982																			
APR	9,755	2,900	3,100	3,071	684	6,721	2,420	2,582	1,674	45	469	50	177	172	70	2,535	400	341	1,225	569
MAY	9,689	3,080	3,193	2,899	517	6,626	2,450	2,541	1,597	38	479	190	163	111	15	2,614	470	489	1,191	464
JUN	11,792	3,440	4,041	3,826	485	8,153	2,850	3,258	1,995	50	687	180	271	223	13	2,932	390	512	1,608	422
JUL	10,874	2,940	3,427	3,661	846	7,361	2,330	2,922	2,049	60	501	70	206	177	48	2,862	390	299	1,435	738
AUG	10,108	2,710	3,601	3,251	546	7,412	2,500	2,909	1,958	45	543	40	280	210	13	2,423	440	412	1,083	488
SEP	10,807	2,620	3,858	3,855	474	7,911	2,460	3,130	2,276	45	563	20	295	226	22	2,393	200	433	1,353	407
OCT	10,954	3,080	3,529	3,764	581	7,637	2,480	2,817	2,296	44	781	340	216	210	15	2,646	370	496	1,258	522
NOV	13,450	4,460	4,026	4,458	506	10,067	3,930	3,148	2,935	54	702	220	337	107	38	2,751	380	541	1,416	414
DEC	19,578	5,850	6,443	5,724	1,561	13,941	5,390	4,778	3,705	68	1,025	50	605	297	73	4,482	280	1,060	1,722	1,420
1983																			
JAN	16,530	6,400	4,755	4,595	780	12,137	5,840	3,621	2,628	48	1,066	250	529	246	41	3,426	410	605	1,721	691
FEB	18,116	6,960	5,090	5,197	869	13,850	6,820	3,946	3,041	43	958	90	383	407	78	3,748	490	761	1,749	748
MAR	23,138	8,590	7,577	5,955	1,016	17,149	7,160	5,877	4,054	58	1,061	70	677	233	81	4,498	930	1,023	1,668	877
APR	21,117	7,520	7,942	4,903	756	15,983	6,630	6,292	3,005	56	1,269	340	656	223	50	3,865	550	990	1,675	650
MAY	23,354	7,760	8,348	6,427	819	17,229	6,860	6,903	3,409	57	1,148	130	549	411	58	4,977	770	896	2,607	704
JUN	30,493	9,180	10,936	8,851	1,526	21,917	7,840	8,683	5,302	92	2,537	980p	916	491	150	6,039	360	1,337	3,058	1,284
JUL	n.a.	n.a.	10,275	6,973	995	n.a.	n.a.	8,297	4,667	64	n.a.	n.a.	759	311	71	n.a.	n.a.	1,219	1,995	860
AUG	n.a.	n.a.	11,291	9,646	1,879	n.a.	n.a.	9,197	6,253	57	n.a.	n.a.	740	485	242	n.a.	n.a.	1,354	2,908	1,580

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.
1982										
MAR	46,125	8,910	16,664	9,630	10,921	10,005	4,130	3,347	1,564	964
APR	48,376	9,090	17,186	11,381	10,719	10,329	4,650	3,390	1,579	710
MAY	49,695	9,390	17,362	12,345	10,598	9,690	4,180	3,350	1,627	533
JUN	49,270	9,240	17,327	12,543	10,160	8,765	3,220	3,597	1,648	300
JUL	48,726	9,610	16,951	13,436	9,729	9,171	3,410	3,537	1,679	545
AUG	50,855	10,410	17,748	13,192	9,505	9,646	3,750	3,847	1,615	434
SEP	51,994	11,350	18,241	13,108	9,295	11,139	5,290	3,888	1,466	495
OCT	54,730	13,610	19,328	12,512	9,280	13,394	7,040	4,024	1,620	710
NOV	60,452	16,540	20,785	13,457	9,670	16,226	8,060	5,017	1,819	1,330
DEC	65,375	19,940	21,548	14,267	9,620	17,913	7,780	6,082	1,991	1,304
1983										
JAN	66,607	20,160	22,945	13,802	9,700	15,343	6,660	5,555	1,928	1,200
FEB	74,301	24,060	25,677	14,847	9,717	17,367	6,950	7,271	2,076	1,070
MAR	80,178	26,500	28,846	14,982	9,850	23,050	8,410	10,291	3,051	1,298
APR	109,493	53,320	31,850	13,993	10,330	26,184	11,630	9,730	3,230	1,594
MAY	81,764	21,560	33,926	15,767	10,531	23,274	7,680	10,622	3,667	1,305
JUN	95,914p	34,140p	35,319	15,308	11,147	25,641	7,040	12,555	3,940	2,106
JUL	n.a.	n.a.	36,852	12,203	12,148	n.a.	n.a.	14,092	3,377	2,164
AUG	n.a.	n.a.	38,590	13,276	14,120	n.a.	n.a.	12,668	3,556	1,645

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
		FHA/		Total		FHA (203)		VA		Private	
	Total	VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
MAR	69	37	32	39	2,193	9	373	7	421	23	1,399
APR	63	34	29	35	1,976	8	322	6	374	21	1,280
MAY	67	31	36	43	2,222	8	335	6	328	29	1,559
JUN	83	40	43	50	2,743	9	408	8	443	33	1,892
JUL	84	38	46	52	2,687	9	375	9	482	34	1,830
AUG	82	36	46	54	2,997	8	452	10	573	36	2,072
SEP	91	47	44	60	3,248	11	482	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,790	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued					Applications	Issued
1982										
JAN	813	430	112	322	3,276	3,280	1,629	1,628	1,543	902
FEB	1,204	519	2,287	682	566	565	1,228	1,115	1,789	960
MAR	1,880	604	224	1,071	2,607	2,523	1,481	1,564	2,223	1,335
APR	2,482	755	428	662	2,726	2,824	2,144	2,176	1,219	835
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,892	1,798	1,924	16,429	1,521
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	1,618	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	820	1,052	5,318	6,367	1,621	1,585	7,976	5,943

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
JAN	130	30	30	70	30	8,070	650	3,630	3,800
FEB	170	50	40	80	60	7,530	540	3,340	3,650
MAR	130	70	10	50	40	6,420	630	2,000	3,790
APR	360	70	80	210	60	7,820	560	2,330	4,930
MAY	130	50	30	50	40	8,150	660	3,230	4,620
JUN	180	60	40	80	70	7,660	590	2,250	4,820
JUL	160	50	30	80	40	8,900	580	2,250	6,070
AUG	150	60	20	70	50	4,420	690	1,570	2,160
SEP	170	70	30	70	30	6,180	980	2,730	2,470
OCT	170	90	30	50	30	5,540	480	2,340	2,720
NOV	180	110	20	50	20	5,370	590	2,170	2,610
DEC	230	100	40	90	50	5,680	880	1,940	2,860
1983									
JAN	150	80	30	40	60	7,160	800	3,720	2,640
FEB	220	90	40	90	50	9,470	980	4,450	4,040
MAR	230	110	20	100	40	14,050	1,570	9,320	3,160
APR	200	80	10	100	50	na	1,150	na	2,520
MAY	430	220	50	160	200	6,440	890	3,820	1,730
JUN	600p	220p	90p	290p	160p	18,470p	950p	15,420p	2,100
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AUG	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1]From the National Association of Realtors' "Existing Home Sales" series.

[2]Reflects cumulative total through the latest month for each column.

[3]Secondary market gross yields.

[4]Federal Home Loan Mortgage Corp. Existing construction only.

[5]Federal Reserve's weighted average interest rate for Commercial Banks.

[6]Weighted average gross yields for accepted bids.

[7]Survey of three New York security dealers. Securities for immediate delivery.

[8]Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

A6450-2 11/1/84

MORTGAGE BANKING

JANUARY 1984

The Magazine of Real Estate Finance

Special Report On The FHA Rate

56219 SU
SRI ACQUISITIONS
CONGRESSIONAL INFOMATION
SERVICE
4520 EAST-WEST HIGHWAY, SITE 200
BETHESDA, MD 20814

Volume 44 No. 4
January 1984

12 Economic Outlook

20 Builder Bonds

36 AAA Ratings

1984 Economic Outlook 12
Dr. Thomas R. Harter

Life Without An FHA Ceiling 18
Cheryl D. Patton

Combining Resources for Builder Bonds 20
Kenneth G. Lore

Multifamily Mortgages: On the Block 28
Audrey Hinton

New Frontiers for AAA Ratings 36
Niel F. Moser and Paul M. Holzem

Spotlight on Resyndication Potential 42
Jeb Brooks and Mark S. Thompson

MBA Honors New CMBs 55

Index of 1983 *Mortgage Banking* Articles 57
Timothy S. Wolf

About This Issue 5
People 73
Books 80
Advertisers Index 87
Mortgage Market Trends 89

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Editor, Stephanie A. Smart

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Greg Fitzhugh

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year, $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MULTIFAMILY MORTGAGES: ON THE BLOCK

Audrey Hinton

In March 1982 when the U.S. Department of Housing and Urban Development (HUD) resumed its program of selling multifamily mortgages the Department owned, very few people were aware of the tremendous opportunities this program would soon bring to the mortgage banking industry, investment banking firms, and to the owners of the projects securing the mortgages sold.[1] Most thought only of the objectives such a sale would meet for HUD and the Government in general. HUD Secretary Samuel R. Pierce, Jr. described these objectives when he said, "The sale is consistent with the Administration's efforts to raise funds for the Treasury [and will] generate cash to offset our borrowing needs." The Department also knew that selling mortgages would help HUD meet the Administration's objective of reducing expenditures. Selling some of the 2,026 multifamily mortgages owned by HUD would mean a savings in HUD's administrative workload and costs because staff would no longer need to service the mortgages sold.[2]

By November 15, 1983, HUD had held five mortgage sales, sold 339 mortgages with principal balances totalling $545.3 million, and generated proceeds of $340.0 million. All of the sales, except one, were conducted for HUD by the Government National Mortgage Association (GNMA) acting through its agent, the Federal National Mortgage Association (FNMA).[3]

The high level of participation in HUD's mortgage sales from private industry indicates that the program is serving far more than the interests of HUD and the Federal Government. The success is encouraging as HUD makes plans for the March 1984 sale and future sales.

Why participate?

Why are mortgagees, investors, and project owners participating in HUD's mortgage sales program? Because HUD offers high-quality Government-guaranteed securities that will provide a stable, long-term return at yields usually well above those available on long-term Treasury securities.

Mortgagee purchasers of mortgages in HUD sales unanimously agree that the mortgage sales program offers some excellent opportunities not only for investors but also for mortgage banking companies with efficient multifamily servicing operations. Mortgagees can profit through the fees earned from servicing loans they buy and then sell, often using conventional mortgage pass-through certificates. Borrowing costs are reduced through the use of the replacement reserve funds and tax and insurance escrows as compensating balances.

Mortgagees who purchase and hold loans on behalf of project owners who cannot afford to buy the loan at the auction can benefit through negotiating the sale of the mortgage to the owner at a later date and by arranging the financing. Mortgagees also earn income through underwriting and rating mortgages for investors.

Thirty-five percent of the mortgages sold have been purchased by project owners. They have taken advantage of the opportunity to pay off their debts

continued

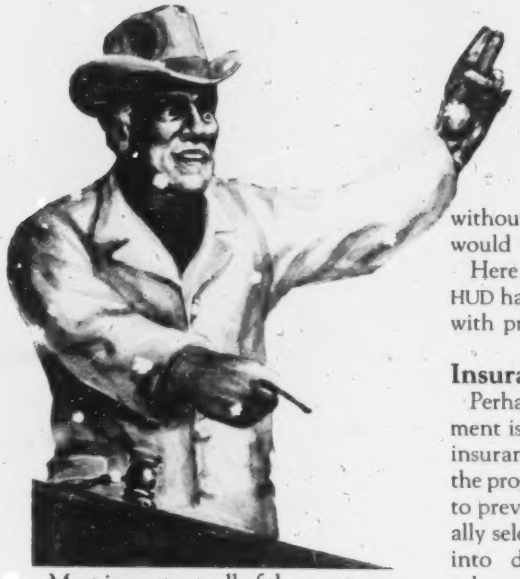
ILLUSTRATION BY STEPHEN WAGNER

to HUD at a discount and refinance their projects. Owners who plan to convert their projects to condominiums or sell their projects in the near future have shown interest in purchasing the mortgages on their projects. They gain control over the debt and no longer need HUD's permission to sell, convert, or put secondary financing on the project. The bonus comes when they pocket the difference between what they sell the project for and the amount they owe on the mortgage.

Bidders have told HUD how impressed they are with the quality and variety of the mortgages HUD offers. Most of the mortgages are on stable, well-seasoned projects with a lengthy operating history.

Interest rates range from 4 to 16.5 percent; unpaid principal balances are as low as $50,000 and have been as high as $30.0 million. Mortgages are secured by rental and cooperative properties for the elderly and for families, as well as by nursing homes, hospitals, and mobile home parks. For investors looking for loans that may mature early and increase their yields, there are mortgages amortizing ahead of schedule, mortgages with call provisions providing for an acceleration of the principal balance well in advance of the scheduled maturity date, and mortgages backed by projects that will convert to condominiums soon. There are mortgages with anywhere from a few months to 40 years remaining to maturity and mortgages on projects with Section 8 assistance that owners generally do not prepay before the expiration of the Section 8 contract.

Audrey Hinton is a special assistant in the Office of Multifamily Financing and Preservation, U.S. Department of Housing and Urban Development, Washington, D.C. She develops the policy and procedures for HUD's multifamily mortgage sales program and coordinates the auctions. Prior to her position at HUD, she was a multifamily mortgage underwriter with James W. Rouse & Company, Columbia, Maryland.



Most important, all of the mortgages are current[4] and can be purchased by HUD-approved mortgagees with HUD insurance, making them an even safer investment. In summary, HUD offers such an assortment of mortgages that there are mortgages for sale that will meet the needs of many investors.

Finally, mortgagees, investors, and project owners participate in HUD sales because HUD sells its mortgages at a reasonable price. Though HUD does not disclose the yields or minimum acceptable selling price for each mortgage, it is noteworthy that HUD accepts higher yields, i.e., lower prices, than GNMA does at its mortgage auctions. Average prices accepted have ranged from a low of 50.8 percent of the unpaid principal balance to a high of 80 percent in the January 1983 sale.[5]

When reviewing the average prices given on the Sales Results chart, readers should keep in mind that these are average prices for the assortment of mortgages sold. Therefore, no valid conclusions can be drawn about the prices purchasers paid for individual mortgages or on the yields to investors. Those interested may request sales results from HUD and compute the yields themselves.

HUD has made several changes in the mortgage sales program. In fact, after each sale HUD contacts participants and asks for their comments on how the sale went for them, the impact of HUD's procedures on them, and what improvements HUD can make in the program. It is important that the sales meet their needs and expectations, for without their participation, the sales would not be a success.

Here are some of the improvements HUD has made as a result of discussions with program participants.

Insurance benefits formula

Perhaps the most important improvement is in the formula for calculating insurance benefits. When HUD began the program, it used a formula designed to prevent purchasers from intentionally selecting mortgages that would go into default, purchasing them at substantial discounts, and then assigning them to HUD for close to the unpaid principal balance. The formula, in effect, offered mortgage insurance on the unpaid principal balance of the mortgage at the time of the claim but not in an amount in excess of the price paid by the original purchaser. HUD thought the formula would attract investors looking for a steady stream of income and not a "windfall" profit.

What happened, however, is that it discouraged investors from participating. Mortgages had to be purchased at very low prices so that investors could obtain a market yield on the loan in the event of an early claim for insurance benefits. Knowing that HUD would not accept such low prices, mortgagees did not bid to the extent HUD had hoped they would.

To encourage participation, for the March 1983 sale, HUD changed the formula for computation of insurance benefits to conform more closely with the GNMA participation in insurance proceeds formula. In effect, the revised HUD formula provides that HUD and the investor share in the insurance benefits if any assignment results from a default that occurs within 60 months after the closing of the mortgage sale.[6]

The revised formula brought increased investor participation to HUD's sales. In July 1982, only 39 percent of the mortgages sold were purchased by HUD-approved mortgagees. In March 1983, the percentage increased to 51 percent. In July 1983, 80 percent of the mortgages sold were purchased by mortgagees.

Fund remittance changes

HUD has made changes in the method of remitting funds for the purchase of mortgages and shortened the timeframe for the transfer of escrows and unapplied funds.

HUD now permits purchasers to remit funds for the purchase of more than one mortgage on a single wire transfer. Previously, separate wire transfers were required for each loan purchased. Now purchasers closing the sale of several mortgages on the same day no longer have to wait hours for HUD to confirm Treasury's receipt of the individual transfers.

Mortgagee purchasers have stressed how important it is that they receive principal and interest payments and escrow funds from HUD in a more timely manner. Late principal and interest payments have to be advanced by them for pooled mortgages they service. In addition, if taxes come due soon after settlement, the late transfer of the escrow funds means the mortgagee has to advance the funds. Both of these events can add to the mortgagees' costs and decrease the price they pay for mortgages.

HUD responded to this by a procedure that credits the amount HUD holds in cash in the tax and replacement reserve escrows to the amounts due from the purchaser at closing. Principal and interest and other funds collected after the sale are held as unapplied funds and sent to the loan purchaser 30–60 days following sales closing.

Mortgagee loan files

HUD now makes it easier for mortgagees to set up their loan files. First of all, HUD begins the reconciliation of loan accounts immediately after acceptance of bids, permitting earlier preparation of settlement information and resolution of escrow problems. Project owners are advised immediately after the auction and again on the day of sales closing of the name of the new mortgagee and where to send future mortgage payments. This cuts down on the delay mortgagees once had in receiving the mortgagor's checks.

HUD now provides at closing a copy of the most recent mortgage billing and a copy of the last paid tax receipt, bill, or tax data sheet. Finally, within 60 days of closing, HUD also provides mortgagee purchasers with its billing and tax files on each mortgage.

Mortgage data accuracy

Last, but not least, HUD has made major improvements in providing potential bidders with accurate data on the mortgages offered. Fiscal data on each mortgage are entered into a computer that checks for obvious errors and inconsistencies in the data. Notices

are sent to potential bidders advising them of corrections to errors in the published data. The Department also provides bidders with Project Summary Data Sheets with information on the mortgage, the project, and the owner. Finally, on the day of the auction, HUD calls bidders and advises them of any erroneous data published on the mortgages on which they bid and allows them to modify or withdraw their bids.

Key auction procedures

The terms and procedures for each sale are published in an auction announcement that is mailed four to six weeks before each sale to HUD-approved mortgagees, owners of the projects securing mortgages offered, and other interested parties. Though the provisions are subject to change from sale to sale, this will highlight the provisions currently in effect.

Mortgages offered and available information

HUD offers assigned and purchase money mortgages that are no more than one monthly payment delinquent. No mortgages receiving interest reduction payments are offered, and no projects receive rent supplement or rental assistance payments, though some may have Section 8 assistance.

HUD makes available for inspection at its headquarters legal documents, project servicing files, and mortgage payment history files on each mortgage offered. Bidders also may inspect project files in the HUD field office having jurisdiction over the project. Project Summary Data Sheets also are mailed to prospective bidders upon request.

Eligible bidders and purchasers

HUD-approved mortgagees and HUD-approved owners of the projects backing the mortgages offered are the only eligible bidders. Mortgagees may bid on any mortgage offered, but owners may bid only on the mortgage secured by their project.

Any successful bidder may assign its contract to purchase a mortgage once prior to closing, but the original party submitting the successful bid will remain liable on the purchase contract to HUD. Project owners may take an assignment or satisfaction of their mortgages. HUD-approved mortgagees may purchase mortgages with HUD insurance.[7] Mortgages sold to project owners and other individuals or businesses are not eligible for insurance.

Bids

Bids, expressed as a percentage of the unpaid principal balance of the mortgage, are submitted to FNMA by telephone between specified hours on the day of the sale.

HUD makes awards to the highest bidders whose bids meet or exceed an undisclosed minimum selling price for each mortgage. In establishing the selling price, HUD considers such factors as the mortgage interest rate; presence of subsidy; type of project; remaining

continued

Chart 1

Sales Results

	Date of Sale Dollars in Millions					
	March 1982	July 1982	January 1983	March 1983	July 1983	TOTAL
No. of Mortgages Offered	117	321	26	333	343	1,140
Principal Balance Offered	$145.3	$442.8	$46.5	$ 465.0	$493.5	$1,593.1
No. of Mortgages Sold	52	107	2	72	106	339
To Project Owners	0	65	2	35	21	123
To HUD-Approved Mortgagees	52	42	0	37	85	216
With Insurance	52	27	0	31	83	193
Without Insurance	0	80	2	41	23	146
Principal Balance Sold	$ 76.1	$159.1	$ 2.1	$ 96.8	$211.2	545.3
Net Proceeds	$ 39.0	$ 92.3	$ 1.8	$ 67.9	$138.6	339.6
Average Price	50.8%	57.2%	80.0%	68.1%	65.4%	64.3%

term; and any unique characteristics of the project or mortgage that may affect prepayment. Neither the type of bidder nor a mortgagee's decision to purchase with or without mortgage insurance is considered when determining if a bid is acceptable.

After evaluating each bid, HUD sends each bidder a formal Notice of Acceptance or Declination of Bid that is the binding purchase contract. HUD also publishes and makes available a list showing the names of all bidders and the bid amounts for all mortgages offered in the auction.

Post-auction sale

The day following the auction, FNMA operators telephone the highest unsuccessful bidder on each mortgage not sold and give that bidder a chance to buy the mortgage at a price set by HUD. The price always exceeds the minimum acceptable selling price set for the regular auction. The price is not negotiable, and the offer is available only on the afternoon following the regular auction.

Sales closings

Successful bidders are required to close on the purchase of the loans by the date set by HUD in the auction announcement. Closings are conducted either by HUD or a private law firm under contract with HUD and, at the purchaser's option, may be held in the contractor's office, HUD offices, or through the mail.

Funds for purchasing mortgages must be paid through the Federal Reserve wire transfer system. Within 60 days of closing, HUD notifies the purchaser of any adjustments to the amounts credited for cash escrows on the day of closing and remits any unapplied funds, excess escrow funds, and reserve funds held in the form of securities, passbooks, instruments, and so on, to the purchaser.

At closing, the purchaser will receive the original note, documents evidencing HUD's ownership of the mortgage, and any other documents HUD has that are necessary for a mortgagee to maintain its responsibilities under the terms of the mortgage and/or applicable HUD regulations.

Sales impact on project

If a mortgage is purchased with insurance, the Regulatory Agreement between HUD and the mortgagor remains in effect. If there is a Section 8 Housing Assistance Payment (HAP) contract on the project, it will stay in effect until its expiration, whether the mortgage is sold with or without HUD insurance. If a mortgage is sold with insurance, the insurance pursuant to Section 207 of the National Housing Act will have no impact upon the rules governing determination of maximum permissible rents at the project.

continued

MORTGAGE EXECUTIVE MANAGER

Join our newly formed mortgage banking subsidiary in a key position. We are a subsidiary of WFS Financial Corporation, the holding company of Wheat, First Securities, a leading investment banking and regional brokerage securities firm. We will be rapidly expanding into major mortgage markets in Virginia, Georgia, Florida and North Carolina.

You'll build your regional business as you develop marketing strategies and new business programs to originate first and second mortgage loans. Extensive credit evaluation and loan services support from our Richmond, Virginia headquarters will permit you to maximize your efforts in identifying and attracting clients.

If you have at least three years of experience in first and second mortgage residential loans or have demonstrated your effectiveness in attracting mortgage business, send your resume to Brenda Watts, V.P. Employment, 707 East Main Street, Richmond, Virginia 23219.

Wheat First Securities

MEMBER NEW YORK STOCK EXCHANGE

An Equal Opportunity Employer M/F/H

$100,000,000

International Mortgage Company

has sold Government National Mortgage Association ("GNMA") mortgage loan servicing approximating the principal amount of $100,000,000 to

Bankers Funding Corporation

We initiated this transaction and represented **International Mortgage Company** during negotiations.

Donaldson, Lufkin & Jenrette

December 2, 1983

Future sales

HUD anticipates holding sales of multifamily mortgages through Fiscal Year 1985. The next sale is planned for March 1984. With nearly 1700 multifamily mortgages remaining in HUD's inventory of assigned and purchase money mortgages, it can continue to offer high-quality, current mortgages for sale. Consideration also is being given to holding sales of the 29,000 single-family mortgages HUD holds, but no firm decisions have been made thus far.

If you would like to receive copies of the auction announcements or further information on HUD's mortgage sales program, please write to HUD, Project Mortgage Sales Program, Room 6153, 451 Seventh Street, S.W., Washington, D.C. 20410. □

[1]HUD held its first sale of multifamily mortgages in January 1973. Sixty-four mortgages with interest rates from 3.5 to 6 percent were sold at prices computed to yield a return of 8 to 8.5 percent.

[2]HUD acquires its mortgages in two ways: (1) a HUD-approved mortgagee may assign an insured mortgage to HUD when the owner defaults under the terms of the mortgage; or (2) HUD may take back a purchase money mortgage in conjunction with the sale of a formerly HUD-owned project.

[3]The January 1983 auction was a sealed bid sale conducted by HUD without GNMA as its agent.

[4]A mortgage is considered current if it is no more than one monthly payment delinquent.

[5]This average is so high because the minimum acceptable bid in this sale was 80 percent of the unpaid balance.

[6]HUD's participating share in the insurance benefits payable equals that percentage of the unpaid principal balance amount of the insured mortgage note remaining after deducting from 100 percent: 1) the percentage of the unpaid principal balance represented by the mortgage purchase price, and 2) an insurance increment that represents a percentage of the unpaid principal balance amount of the mortgage on the day of default.

[7]Mortgages are insured pursuant to Section 207 of the National Housing Act, and benefits are paid in cash.

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

December 13, 1983

Government and business are preparing for the new year, and debate is focused on Federal budget deficits and their implications for economic growth. As the current recovery enters its second year, most measures of economic performance show this recovery to be typical of post-war business cycles. The November unemployment rate dropped to 8.4 percent, real Gross National Product (GNP) is growing at a 6 percent annual rate so far this year, and inflation is down to the 3 to 5 percent range. One important exception among the economic indicators is the level of interest rates, which remains about double the level of the average one-year old recovery, both in the short- and long-term maturities. As a result of continuing high interest rates, investment is relatively weak in this business cycle, except in the area of residential construction.

In spite of the lack of Congressional action so far this year to correct the stream of projected deficits "as far as the eye can see," there are some signs that meaningful fiscal reform may be achieved early in 1984. The Senate Finance Committee is conducting hearings this week on the persistent Federal deficit, and MBA testified today. In addition there are reports that the Administration is considering a package of spending cuts and tax increases for submission to Congress in January. If these developments lead to action in 1984 to reduce deficits, then there is a reasonable hope that interest rates can decline, sustaining the recovery.

On the spending side, a scaling back of the requested 22 percent growth in defense spending for FY 1985 has been suggested by Administration spokesmen. On the tax front, it now appears that a contingency tax increase keyed to certain spending cuts desired by the White House will be considered by the President. At long last we appear to be approaching the point where all the major players in the economic policy debate agree that the level of Federal deficits now projected for the next few years cannot be permitted to occur.

In reviewing the current problem of the deficit, it is useful to analyze the trends that led to the current imbalance. During the past 20 years, Federal spending has grown at an average annual rate of 11 percent, while the GNP has been growing at less than 9 percent per year. The result is that since 1963 Federal spending has increased from 17 percent of GNP to 25 percent in the last fiscal year. Due to certain spending reforms enacted in the tax "enhancement" bill of 1982, this percentage is projected to remain constant through 1989.

While Federal spending has been growing faster than the economy over the past 20 years, the revenue side of the ledger has not shown the same expansion. In FY 1983, the Federal Government collected 18.6 percent of GNP as tax revenue. Due to the scheduled indexing of the personal income tax brackets to the consumer price index, beginning in 1985, Federal revenues will remain just below 19 percent of GNP throughout the remainder of this decade.

The difference between the 25 percent of GNP devoted to Government spending and the 19 percent collected as tax revenue is the Federal deficit—almost 6 percent of GNP. Under current tax and spending plans, the deficit will remain 5 to 6 percent of GNP throughout this decade. At this rate Federal borrowing will absorb all of personal saving, leaving only business saving, non-Federal Government saving, and foreign inflows of capital to finance the investment requirements of business and households.

Aside from the adverse effect this outcome would have for interest rates, its effect on the accumulation of national debt is worthy of special consideration.

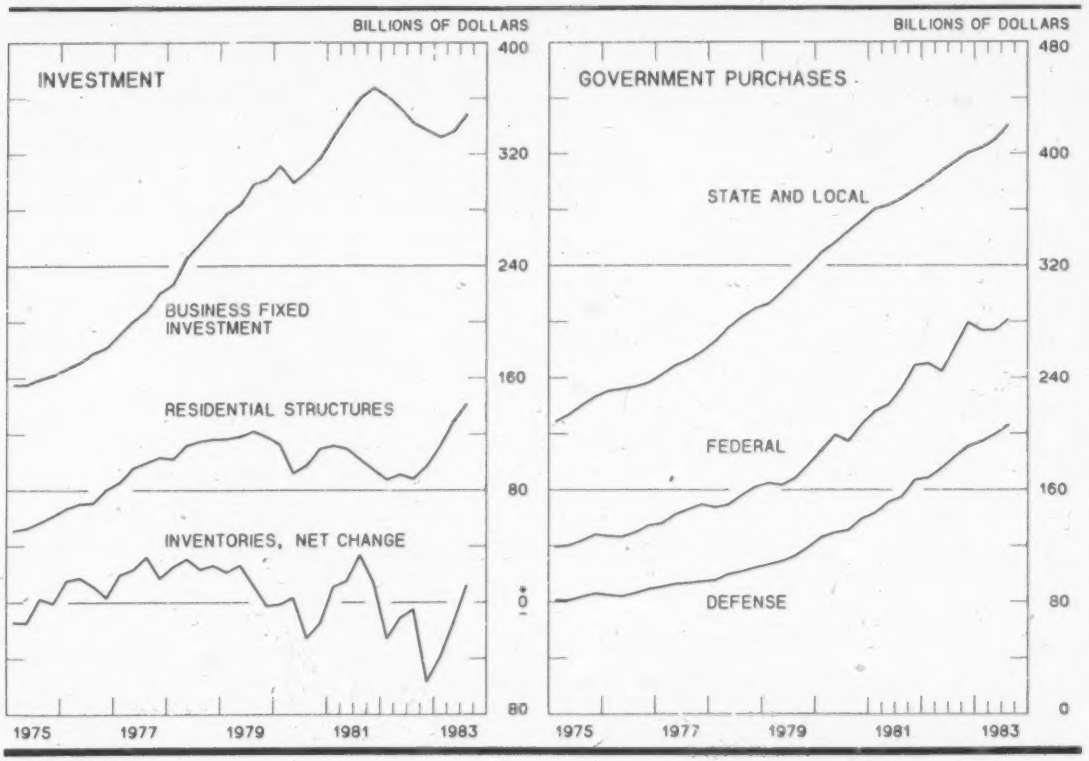
The stream of annual deficits near $200 billion for the rest of the decade would more than double the national debt. At only an 8 percent average Government interest rate, three percentage points lower than current rates, the increase in the annual interest bill just from the 1984-1989 deficits would exceed $100 billion. The central danger in this scenario is that political pressure to inflate the economy to handle the Government debt would eventually become overwhelming. The result would be a return to rapid inflation requiring either a reduced standard of living or another dose of monetary austerity similar to 1980-1983.

It is hoped that our political leaders will recognize the danger signals and put our fiscal house in order. The correction is certain to occur—the only option is whether it is done relatively soon in an orderly manner or is delayed until events force action.

Dr. Warren Matthews
Senior Economist

SELECTED COMPONENTS OF GNP

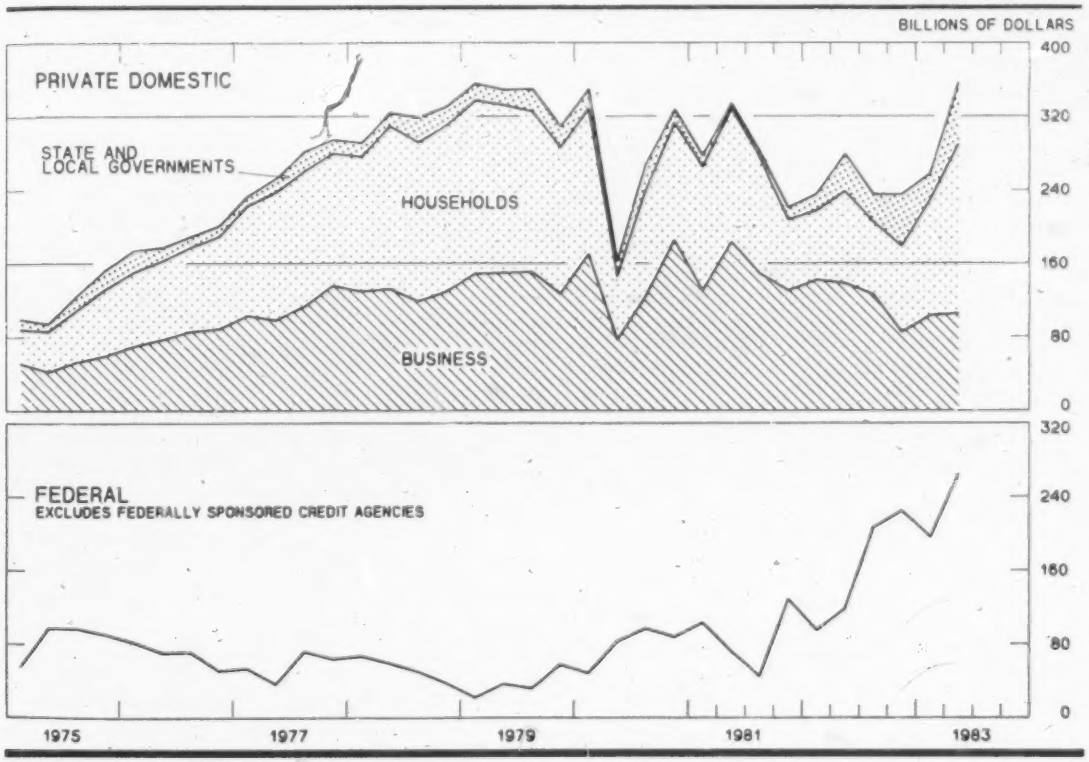
SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



NET FUNDS RAISED

MAJOR NONFINANCIAL SECTORS

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



Source : Federal Reserve Board

MORTGAGE MARKET TRENDS—JANUARY 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE
(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES: Actual			PERMITS 16,000 ISSUING PLACES: Seasonally Adjusted Annual Rate			HOUSING STARTS: Actual			HOUSING STARTS: Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
JUL	91	53	37	1,062	585	477	107	70	37	1,185	721	464
AUG	80	54	26	888	580	308	96	70	26	1,046	738	308
SEP	100	61	39	1,003	657	346	105	71	34	1,134	773	361
OCT	100	63	37	1,172	737	435	111	73	38	1,142	782	360
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,707	1,239	468
FEB	93	56	36	1,479	949	530	96	66	30	1,784	1,220	564
MAR	135	91	44	1,467	985	482	135	95	40	1,605	1,108	497
APR	138	93	45	1,536	982	554	136	103	33	1,506	1,118	388
MAY	149	104	45	1,635	1,076	559	175	124	51	1,807	1,279	528
JUN	171	114	57	1,761	1,160	601	173	125	48	1,736	1,250	486
JUL	147	92	55	1,782	1,057	725	162	113	49	1,804	1,167	637
AUG	153	97	56	1,652	1,007	645	177	121	56	1,904	1,245	659
SEP	148	90	58	1,506	967	539	155	109	46	1,672	1,160	512
OCT	135p	87p	48p	1,565p	1,022p	543p	155p	100p	55p	1,608p	1,079p	529p
10 months												
1983	1,354	880	473				1,456	1,020	437			
1982	800	507	292				872	613	259			
1981	858	568	278				957	712	245			
1980	987	695	292				1,082	815	267			

VALUE OF NEW CONSTRUCTION PUT IN PLACE
(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate: Total	1 Unit	2+ Units	Non-Res.
1982				
JUL	116,632	35,270	16,085	65,277
AUG	117,960	35,852	16,774	65,334
SEP	118,274	36,309	16,728	65,237
OCT	118,591	36,895	16,720	64,976
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,649	68,404	26,614	62,631
OCT	150,830p	66,022p	24,931p	59,877p

HOUSE SALES
(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES: Sold	Available For Sale	Months Supply at Current Rate
1982				
JUL	183	31	251	8.5
AUG	186	34	247	7.5
SEP	168	40	248	6.9
OCT	173	41	245	6.1
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.1
MAY	259	64	271	4.9
JUN	283	59	283	5.4
JUL	260	51	288	5.9
AUG	280	51	296	6.5
SEP	240	50	303	6.5
OCT	223p	54p	302p	5.5p
10 months				
1983	2,336	535		
1982	1,630	339		
1981	2,077	374		
1980	2,484	464		

RESIDENTIAL STRUCTURES, BY REGION
(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES: Actual				PERMITS 16,000 ISSUING PLACES: Seasonally Adjusted Annual Rate				STARTS: Actual				STARTS: Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
JUN	10	12	46	20	105	118	499	207	10	18	44	19	98	157	462	193
JUL	9	12	45	24	101	140	555	266	11	15	62	18	104	159	725	197
AUG	13	10	42	17	113	106	485	184	12	16	49	16	119	164	567	196
SEP	12	15	51	21	114	131	530	228	16	15	54	20	138	141	629	226
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	164	231	992	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	270	263	900	351
MAR	11	14	82	28	136	173	835	323	13	13	80	29	210	196	855	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	175	192	804	335
MAY	15	20	77	38	148	194	885	408	17	25	93	40	164	229	1,008	406
JUN	19	21	86	45	183	201	930	447	18	25	89	42	171	214	932	419
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	164	233	985	422
AUG	18	21	77	37	182	202	870	398	22	25	92	38	190	246	1,024	444
SEP	18	21	73	36	176	177	765	388	15	23	84	34	133	220	947	372
OCT	15p	21p	67p	32p	154p	205p	813p	393p	16p	23p	84p	33p	153p	194p	909p	352p
10 months																
1983	140	163	723	329					145	189	800	327				
1982	91	100	435	174					94	126	485	164				
1981	97	118	421	222					98	148	494	212				
1980	99	157	467	266					105	182	542	255				

CONSTRUCTION STATUS
(units in thousands)

Year and Month	UNDER CONSTRUCTION: Total	1-4 Units	5+ Units	COMPLETIONS: Total	1-4 Units	5+ Units
1982						
JUN	671	438	232	85	76	28
JUL	690	442	248	85	64	21
AUG	690	442	248	91	66	25
SEP	713	450	263	84	63	21
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	154	106	48
SEP	1,028	635	393	133	99	34
OCT	1,033p	627p	406p	152p	109p	43p
10 months						
1983				1,128	824	304
1982				816	593	242
1981				1,062	782	281
1980				1,256	890	366

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES: FHA Opinion Survey: FHA New[1]	Conventional: New	Conventional: Existing	FHLBB Survey: Conventional: New	Conventional: Existing	APARTMENTS[1]	CONSTRUCTION LOANS[1] ALL TYPES	FNMA Mandatory Delivery Yields: ARM (5 yr Treas)	FNMA Mandatory Delivery Yields: Conv	GNMA Current Securities Yield[2]	SELECTED SECURITIES: Aaa Utility New Issue	U.S. Gov't. 10-yr	U.S. Gov't. 26-wk	Prime Commercial Paper 90-119 Days	SPREADS (Basis Points): FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
1982																
JUL	16.29	16.50	16.55	15.70	15.52	17.13			16.125	15.54	15.61	13.95	12.236	12.94	68	159
AUG	14.61	15.40	15.45	15.71	15.63	15.62	17.19		15.500	14.31	13.95	13.06	10.105	10.15	66	125
SEP	14.03	15.05	15.05	14.99	15.30	15.37			14.750	13.51	13.50	12.34	9.539	10.36	53	117
OCT	12.99	13.95	13.95	14.41	14.95	14.13		13.097	14.000	12.86	12.20	10.91	8.299	9.20	79	195
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.96	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.95	13.95	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidental				
	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.
1982																				
MAY	8,699	2,090	3,193	2,899	517	5,836	1,660	2,541	1,597	38	439	150	163	111	15	2,424	280	489	1,191	464
JUN	10,882	2,530	4,041	3,826	485	7,463	2,160	3,258	1,995	50	637	130	271	223	13	2,782	240	512	1,608	422
JUL	10,164	2,230	3,427	3,661	846	6,981	1,950	2,922	2,049	60	481	50	206	177	48	2,702	230	299	1,435	738
AUG	9,848	2,450	3,601	3,251	546	7,042	2,130	2,909	1,958	45	573	70	280	210	13	2,233	250	412	1,083	488
SEP	10,467	2,280	3,858	3,855	474	7,541	2,090	3,130	2,276	45	593	50	295	226	22	2,333	140	433	1,353	407
OCT	10,724	2,850	3,529	3,764	581	7,447	2,290	2,817	2,296	44	761	320	216	210	15	2,516	240	496	1,258	522
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	337	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	48	1,532	650	529	312	41	3,389	180	605	1,913	691
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	43	1,084	170	383	453	78	3,750	300	761	1,941	748
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	58	1,113	70	677	285	81	4,531	790	1,023	1,841	877
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,531	4,670	10,331	8,115	1,415	17,015	3,860	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[a]	Life Cos.
1982										
APR	48,376	8,220	17,186	11,381	10,719	10,329	3,630	3,390	1,579	710
MAY	49,695	8,260	17,362	12,345	10,598	9,690	3,380	3,350	1,627	533
JUN	49,270	8,100	17,327	12,543	10,160	8,765	2,560	3,597	1,648	300
JUL	49,726	8,500	16,951	13,436	9,729	9,171	2,700	3,537	1,679	545
AUG	50,855	9,050	17,748	13,192	9,505	9,646	3,050	3,847	1,615	434
SEP	51,994	9,800	18,241	13,108	9,295	11,139	4,240	3,888	1,466	495
OCT	54,730	12,570	19,328	12,512	9,280	13,394	6,740	4,024	1,620	710
NOV	60,452	15,660	20,785	13,457	9,670	16,226	7,290	5,017	1,819	1,330
DEC	65,375	16,320	21,548	14,267	9,620	17,913	6,110	6,082	1,991	1,304
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,846	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	78,074	14,050	38,562	13,495	11,967	20,644	4,900	10,895	3,454	1,395

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
APR	63	34	29	35	1,976	8	322	6	374	21	1,280
MAY	67	31	36	43	2,222	8	335	6	328	29	1,559
JUN	83	40	43	50	2,743	9	408	8	443	33	1,892
JUL	84	38	46	52	2,687	9	375	9	482	34	1,830
AUG	82	36	46	54	2,997	8	352	10	573	36	2,072
SEP	91	47	44	60	3,248	11	462	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued					Applications	Issued
1982										
FEB	1,204	519	2,287	682	566	565	1,228	1,115	1,789	960
MAR	1,880	604	224	1,071	2,607	2,523	1,481	1,564	2,223	1,335
APR	2,482	755	428	662	2,726	2,824	2,144	2,176	1,219	835
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,092	1,798	1,924	16,429	110
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,425	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	1,618	1,651	4,621	4,621	1,523	1,491	5,468	4,363
AUG	1,282	1,213	820	1,052	5,592	6,368	1,621	1,585	7,976	5,943
SEP	2,739	1,203	2,181	1,018	3,183	3,283	2,263	1,555	6,169	4,200

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
FEB	110	40	20	50	70	340	60	50	230
MAR	90	50	10	30	50	480	90	60	330
APR	240	50	50	140	70	490	90	140	260
MAY	90	30	20	40	50	620	80	160	380
JUN	120	40	30	50	80	700	80	300	320
JUL	110	40	20	50	40	430	50	250	130
AUG	100	40	20	40	60	540	90	200	250
SEP	110	40	20	50	40	320	80	130	110
OCT	130	70	20	40	30	230	100	110	20
NOV	130	80	10	40	30	430	130	220	80
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	130	50	20	60	50	360	100	30	230

n.a.--Not available; p--Preliminary

[1]From the National Association of Realtors' "Existing Home Sales" series.

[2]Reflects cumulative total through the latest month for each column.

[3]Secondary market gross yields.

[4]Federal Home Loan Mortgage Corp. Existing construction only.

[5]Federal Reserve's weighted average interest rate for Commercial Banks.

[6]Weighted average gross yields for accepted bids.

[7]Survey of three New York security dealers. Securities for immediate delivery.

[8]Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED				NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
	Total[2]	1-4 Units	5+ Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1981													
OCT	2,110	1,550	270	420	2,440	1,870	480	350	1,040	170	0	170	400
NOV	1,890	1,520	40	330	1,820	1,430	400	290	740	40	10	30	350
DEC	2,290	1,660	170	280	2,530	1,800	600	390	810	190	0	190	540
1982													
JAN	1,650	1,110	180	400	1,430	1,030	330	240	460	150	40	110	250
FEB	1,640	1,300	170	230	1,400	1,030	370	200	460	140	70	70	230
MAR	2,240	1,680	90	310	2,090	1,570	480	240	850	90	40	50	430
APR	2,190	1,810	60	290	1,940	1,550	450	250	850	80	20	60	310
MAY	2,420	1,870	310	340	2,090	1,660	530	290	840	150	50	100	280
JUN	2,530	2,100	140	380	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,070	1,800	40	250	2,230	1,950	610	370	970	50	50	0	230
AUG	2,290	1,870	70	400	2,450	2,130	720	420	990	70	10	60	250
SEP	2,000	1,880	30	130	2,280	2,090	700	490	900	50	10	40	140
OCT	2,460	1,910	600	280	2,850	2,290	840	550	900	320	90	230	240
NOV	3,220	2,800	190	230	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,140	3,940	120	180	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,450	4,180	790	290	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,220	5,040	210	300	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	6,320	5,420	70	570	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,870	5,020	700	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	6,470	5,330	620	660	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	7,130	5,780	980	410	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,390	5,030	20	360	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,360	4,390	230	810	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,100	3,480	130	550	4,670	3,860	1,300	890	1,670	220	60	160	590

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1981														
OCT	2,340	1,770	170	400	2,560	1,850	200	510	5,190	280	840	5,280	510	1,130
NOV	1,920	1,320	180	420	4,250	1,490	190	2,570	3,720	390	640	4,170	610	1,150
DEC	3,150	2,370	170	610	2,470	2,020	160	290	5,890	950	600	4,780	1,240	710
1982														
JAN	2,320	1,850	170	300	2,590	1,970	100	520	5,160	1,150	940	4,350	1,540	1,200
FEB	2,410	1,790	60	560	2,860	2,000	80	780	5,030	930	970	3,680	1,370	1,270
MAR	3,370	2,440	210	720	2,450	2,070	270	110	6,270	560	960	4,540	880	1,260
APR	3,630	1,830	330	1,470	4,450	2,510	300	1,640	5,950	640	1,630	5,280	730	1,600
MAY	3,380	2,070	390	920	3,460	2,130	420	910	6,460	740	1,060	5,450	1,430	1,220
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,011	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,900	4,790	0	110	6,340	4,810	870	660	12,860	410	780	9,280	1,250	790

Notes: Data 1982 and 1983 are revised.

Notes: [1]All dollar amounts are in millions.

[2]Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3]Series labeled non-residential are also inclusive of farm data.

[4]Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[1]			SERVICING VOLUME		
	Total	1-4 Units				5+ Units			Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
		Total	FHA	VA	Conv.	Total	FHA	Conv.							
1981															
OCT	4,330	2,640	580	400	1,660	570	60	510	1,120	67	60	58	214,730	20,730	46,680
NOV	3,580	2,220	480	340	1,400	570	60	510	790	70	64	80	188,070	19,880	37,990
DEC	4,330	2,280	470	320	1,490	1,230	160	1,070	820	59	57	50	212,560	22,750	39,210
1982															
JAN	6,150	3,200	670	460	2,070	1,680	220	1,460	1,270	52	54	54	204,420	26,490	40,660
FEB	5,590	2,910	590	440	1,880	1,540	280	1,260	1,140	46	55	60	204,960	25,450	40,430
MAR	5,670	3,370	700	400	2,230	970	130	840	1,330	47	58	55	216,430	29,520	40,140
APR	6,350	3,230	690	480	2,060	1,230	140	1,090	1,890	58	39	45	214,400	27,670	42,660
MAY	6,210	3,370	720	510	2,140	1,650	150	1,500	1,190	55	60	54	219,330	28,800	41,230
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	11,080	6,760	1,890	1,370	3,500	3,430	0	3,430	890	47	33	47	284,440	41,310	33,780

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.	Land Loans	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Land Loans
1981														
OCT	280	70	40	170	40	820	310	150	360	4,020	1,150	980	1,890	900
NOV	190	70	40	80	40	380	110	50	220	3,960	1,000	1,030	1,930	870
DEC	180	70	40	70	70	990	590	130	270	4,240	1,020	1,120	2,100	900
1982														
JAN	90	20	20	50	40	460	50	130	280	2,430	580	570	1,280	570
FEB	110	40	20	50	70	340	60	50	230	2,540	600	640	1,300	600
MAR	90	50	10	30	50	480	90	60	330	2,320	570	570	1,180	570
APR	240	50	50	140	70	490	90	140	260	2,720	580	690	1,450	640
MAY	90	30	20	40	50	620	80	160	380	2,670	560	690	1,420	610
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	130	50	20	60	50	360	100	30	230	2,460	710	340	1,410	630

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1981												
OCT	1,200	130	160	910	7,030	920	1,330	4,780	11,510	2,320	5,260	3,930
NOV	1,050	120	520	410	6,120	750	1,770	3,600	10,870	1,680	5,270	3,920
DEC	1,920	140	1,310	470	7,480	770	2,910	3,800	10,960	1,160	5,710	4,090
1982												
JAN	2,030	160	1,400	470	8,070	650	3,620	3,800	10,790	1,200	6,150	3,440
FEB	680	60	190	430	7,530	540	3,340	3,650	10,910	1,260	5,700	3,950
MAR	890	170	160	560	6,420	630	2,000	3,790	11,790	1,330	7,030	3,430
APR	2,720	100	1,090	1,530	7,820	560	2,330	4,930	12,270	1,070	5,900	5,300
MAY	1,270	130	670	470	8,150	660	3,230	4,260	11,020	1,200	5,400	4,420
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	10,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,040	80	690	270	4,830	650	2,120	2,060	44,000	3,180	12,460	28,360